CONGRESS AND THE STOCK MARKET ★

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BUSINESS AND ECONOMICS

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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ngerous Aspects of...

THE COLD WAR on the
MESTIC ECONOMIC FRONT
By James J. Butler

★

WHAT 1958
RNINGS REPORTS REVEAL
— And Keys to First Quarter Trends
By Harold B. Samuels

Nos. 1 and 2 Of Our Annual

Industrial - Investment Reappraisals of Companies in Major Industries

ich TOBACCO in 1959?
Walter Untermeyer

FARM EQUIPMENTS -- where dynamic- lagging
By R. C. Erlingsen

What FORD'S RE-ENTRY Into AUTO FINANCING MEANS
By Robert Shaw

★

MPANIES WHERE NEW
NAGEMENT POLICIES ARE
ITALIZING OPERATIONS
— And Profits Outlook
By Ward Gates

★

A STEEL and a RAIL
That Have
utperformed Their Fields

COVER

THE U.S. TREASURY SALUTES THE AUTO INDUSTRY

—and its thousands of employees who help strengthen America's Peace Power by buying U.S. Savings Bonds

The huge team that plans, builds and markets the cars America drives is making another great contribution to our national security. Thousands upon thousands of auto industry employees are buying U. S. Savings Bonds, regularly, through the Payroll Savings Plan.

Regular purchase of Shares in America helps these forward-looking people set up their own reserves for home building, for education and for greater security after retirement. The Payroll Savings Plan provides a sound, automatic way to practice thrift.

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Henry V. Pogorzelski, pictured at work in one of America's great automobile plants, is typical of the thousands of skilled employees in this field who are buying U.S. Savings Bonds regularly. Mr. Pogorzelski uses his company Payroll Savings Plan to make his contribution to the Peace Power of his country.

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CONTENTS

Cover photo: Governor Rockefeller's customary smile is absent as he surveys boxes containing copies of his $2 billion budget for New York State, which calls for history-making tax increases.

Map page 524—Adapted from "World Commerce and Governments" by Woytinsky and Woytinsky.

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IBM

176TH CONSECUTIVE QUARTERLY DIVIDEND

The Board of Directors of International Business Machines Corporation has today declared a quarterly cash dividend of $.65 per share, payable March 10, 1959, to stockholders of record at the close of business on February 10, 1959.

C. V. BOULTON,
Treasurer

590 Madison Avenue
New York 22, N. Y.
January 27, 1959

IBM — INTERNATIONAL BUSINESS MACHINES CORPORATION

Allied Chemical Corporation

DIVIDEND

Quarterly dividend No. 152 of $.75 per share has been declared on the Common Stock, payable March 10, 1959, to stockholders of record February 13, 1959.

RICHARD F. HANSEN
Secretary

January 27, 1959

Allied Chemical

Continuous Cash Dividends Have Been Paid Since Organization in 1920

UNION CARBIDE

A cash dividend of Ninety cents (90¢) per share on the outstanding capital stock of this Corporation has been declared, payable March 2, 1959 to stockholders of record at the close of business Feb. 6, 1959.

BIRNY MASON, JR.
Executive Vice-President and Secretary
UNION CARBIDE CORPORATION

1,600,000 Bell Telephone Share Owners

Most are small share owners. Women are the largest group.

More than 250,000 are Bell telephone employees.

OWNERSHIP IS WIDESPREAD. A.T.&T. share owners live in cities, towns and on farms, in 22,000 communities throughout the country. About 450,000 of the shares are in two names, generally husband and wife. Many hundreds of hospitals, churches, libraries and charitable organizations are among the holders of A.T.&T. stock and bonds.

The Bell System is an outstanding example of American democracy in business.

Millions of people use telephone service. 735,000 people work for the Bell companies. More than 1,600,000 people own A.T.&T. stock.

The owners of American Telephone and Telegraph Company stock are people in all walks of life.

Most of them are small share owners. No one individual owns as much as 1/30th of one per cent of the stock. Many thousands own five and ten shares. About half own fifteen shares or less.

Women are the largest group and hold the most stock. Over 250,000 of the share owners are Bell telephone employees.

Some 85 per cent of all the shares are owned by individuals. In addition to these direct owners of A.T.&T. securities, many millions of other people have an important, beneficial interest through the holdings of their insurance companies, pension funds, investment companies, unions, savings banks, etc.

The total of direct and indirect owners represents the great majority of all the families in the country.

A.T.&T. share owners, and the owners of A.T.&T. bonds, are the financial foundation of our ability to serve. For without the money they have put in the business you would not have the quality and quantity of telephone service you enjoy today. Nor would there be work and wages for 735,000 employees.

Obviously, investors will continue to supply capital in the amounts required for present and future needs only if they can expect the Bell System to earn a return on the money they invest that is reasonable in comparison with the earnings rates of other companies and industries.

So telephone progress, and the advantage to all that comes from pushing ahead, begins with good earnings and our faith that Americans want good and improving service at prices which allow a fair profit.

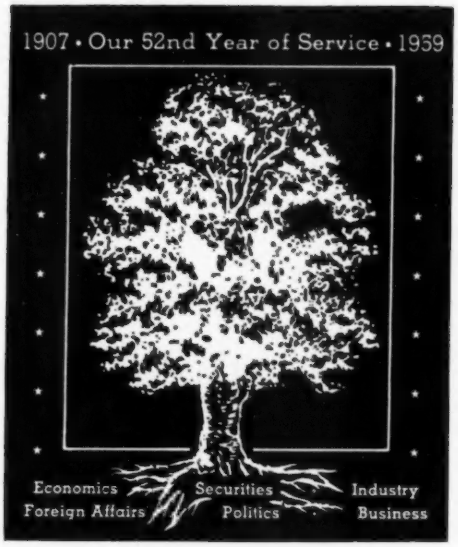
That is the way of life which in our country has stimulated invention, nourished enterprise, created jobs, raised living standards and built our national strength.

As long as we live by this principle—and earnings are sufficient to enable us to carry it out—the future of the telephone is almost limitless in possibilities for service to you.

BELL TELEPHONE SYSTEM

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

AT LAST — COURAGE AND ETHICS . . . Regardless of how the people feel about new taxation — and New Yorkers are people — there is admiration expressed on every side for the fact that Governor Nelson A. Rockefeller in sponsoring such an unpopular measure as a tax boost, did so in the people's interest — and left his political fortunes in the lap of the gods.

Of course, case-hardened politicians, who believe in taking the course of least resistance to get votes, are making dire predictions that Governor Rockefeller will be snowed under come next election. But I feel certain that, instead, he will emerge as a great leader, and that other states will follow his example in taking steps to balance expenditures with increased tax revenues when necessary to insure fiscal soundness.

In times like the present, I hope that the example set by Governor Rockefeller will encourage the voters to discard politicians who constantly seek to curry favor at their expense. This situation has reached serious proportions in New York City, where the Puerto Rican vote has been purchased at the expense of jamming the relief rolls, and overcrowding (with whole families occuying a single room), producing unsanitary conditions that are a menace to the health of the whole city. The absurdities to which New York has been subjected by vote-hungry politicians are ad infinitum.

It is refreshing to have a man with Governor Rockefeller's courage and ethics as the head of our State Government.

PLAYING POKER . . . On my transoceanic radio I was able to listen to translations of speeches delivered at the Communist Congress by both Mikoyan and Khrushchev. I heard Mr. Khrushchev blustering as though he held five aces in his hand, but we happen to know that there are only four in the deck and that we hold some of them.

After it was over, I came to the conclusion that things were so bad for the people of the Soviet Union that Mr. Khrushchev was obliged to tell them "fairy tales" about the "depression, unemployment and starvation that was the lot of those who lived in a Capitalistic state." He chose to omit Mr. Mikoyan's first-hand report about the success of the United States in spreading the wealth among all its people, so that the great masses not only owned their own homes, but also automobiles, radios and television, and other conveniences which are rarely found except in the high-echelon classes of a Communist state.

I wonder how many Russians accepted these fanciful tales as truth, in the light of the large number of Soviet citizens who have visited our country and brought back the facts?

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907—*"Our 52nd Year of Service"*—1959

As I See It!

By James J. Butler
and Charles Benedict

SPOTLIGHTING THE STUDIED PURPOSE OF DEMOCRATIC LEADERSHIP TO UNBALANCE THE BUDGET — EARLY

SHOCKING as it may seem at this crucial stage in our affairs, the politicians are setting their 1960 personal and party ambitions ahead of the interests of the country.

The technique decided upon to circumvent the President's program was to unbalance the budget early, and then work on the psychology that since it was already shot to pieces, there was no point in trying to save a million here and a million (or billion) there. For their purpose, they selected two pork barrel bills — the Housing and the Airport bills — where money goes into every state and all the way down to the pick-and-shovel pay envelope — a sure fire vote-getter if you want to be re-elected.

The Housing and Airport bills were passed with both bills together calling upon the taxpayers to go into hock for hundreds of millions of dollars — and may require the levy of new taxes if we are to avoid financial instability. While it is true that the expenditures will be spread over a period of years, the amount allocated for the first year is enough to unbalance the budget. Ike might successfully veto the bills; or he might refuse to release the funds. The latter method is a "paper advantage": his own party-men would yell to the high heavens. With money available for their districts they would be politically dead in 1960 if Ike withheld it.

In enacting the bills Congress deliberately avoided the unpopular subject of taxes, and acted without any real consideration for the impact of deficit spending under the dangerous inflationary trends at home, and the certain further weakening of the dollar in markets abroad.

More than that, in passing on the "fat" housing bill, they are actually granting a huge subsidy to the real estate operators, who have already made millions of dollars through availability of government funds, all of which must ultimately come out of the taxpayer's pocket. And this on top of the fact that millions in taxpayers' money have already been garnered by shoe-string real estate operators in the post-war era.

By the technique of speedily rushing huge appropriations through early in the game, an epitaph for a balanced budget is being written on Capitol Hill.

Democrats under Senator Lyndon Johnson, with conspicious help from some Republican sources, revealed their strategy, which was to put to death the pay-as-you-go motion early in the session, making deficit financing unavoidable — inevitable.

This was done so that Democratic leadership would not be confronted at every turn by cautioning admonitions to abandon legislative goals lest the budget be thrown out of balance. It had elected to bring about a showdown. It had the votes to win.

►*Within the next 30 days at the present rate, the budget for the coming Fiscal Year will be unbalanced to the point of no return.*

This forecast is based on the fact that Congress, at its current pace and indicated plan, will have cleared legislation costing hundreds of millions of dollars more than the President's schedule of anticipated income and outgo can handle.

The Interesting Technique

The determination of Johnson and his followers to block a balanced budget out of future debate, is evidenced by the extraordinary speed with which they moved into the housing and airport construction bills. Ordinarily these costly undertakings would trickle along in the flow of business; be reached late in the session. Meanwhile less expensive, less adventurous proposals would be scaled against the need to keep spending within income, and would fall by the wayside. Later, then, the Congress would consider larger outlays, with balanced budget still within grasp.

This would call for a holding action, which is much easier to maintain than is an effort to rally forces in rout and regain lost positions. If a budget already is out of balance there is little inducement, and less political gain, in doing minor repairs where even general overhaul wouldn't help the structure. Congress would resemble the man who walks in the rain because there's no sense in running. He's already soaking wet!

Under Johnson Leadership

Johnson's hand was disclosed when he jammed the $2.675 billion housing bill through the Senate Banking Committee. (It will be recalled that Speaker Sam Rayburn had announced his approval even before the legislation was introduced in the House.) The bill hadn't been printed when Senator Mike Mansfield, democrat whip, notified his party men that floor consideration would be immediate, and night-and-day sessions would continue until the measure was passed.

No one suggested that an emergency existed; it wasn't put forth as a job-creating bill. But the first draft provided $2.1 billion for urban renewal, whereas Ike had asked for $1.3 billion (for six years, in each instance). It proposed 35,000 new public housing starts next year, whereas Ike suggested none. It contemplated $400 million for college housing; Ike asked $200 million.

► *The Senate voted some reductions to avert a presidential veto, but Ike's ceiling was rejected, with 12 Republicans joining Democrats to make the vote 60-28. On that basis a White House veto would be overridden.*

Imbalance Assured!

And if the Housing Bill were not enough to kick over the apple-cart of balanced budgeting, the Airports-Aid Bill, was dropped onto the conveyor held for accelerated legislative treatment: $575 million, against the President's proposal to spend $200 million for air safety measures. If this would not insure imbalance, the Democrats planned to add $1 billion for more missiles. And no one suggested one cent of offsetting economies!

The long shadow

Conclusion

This is the picture that the new Democratic Congress has conjured up for the citizens of this country, bound to make 1959 one of the most crucial years in our history.

These manoeuvres by Congress may in the end result in a devaluation of the dollar, — and seriously affect its buying power — directly shrink personal savings, — social security payments, insurance and annuity policies, as well as the pension payments to which the workers have been contributing.

As any intelligent person familiar with the monetary and economic history of the world down to our times knows, — the extremes of inflation usually end in such drastic deflation that the whole economy and living standard of the people is seriously dislocated. This is what happened in Germany and in France in our own lifetime, — and can happen here through ill-conceived and selfish legislative action.

The purpose and deliberate passing of the Housing Bill by the new Congress is terribly disillusioning and disappointing. In other days, we could understand law-makers having a strictly regional viewpoint, because they lacked the financial background necessary for their jobs. But today, when there are statesmen in both parties, with a deep understanding and appreciation of events, it is difficult to view their activities with any kind of sympathy whatever. There are huge sums involved compared to the peanuts of other days — funds that should be used to the greatest advantage of the country as a whole, instead of political purpose.

In earlier days, the Democratic Party was looked upon as the "party of recession"; more recently they were called the "big spenders". Neither is true; but great damage has been done, nevertheless, because of the lack of courage on the part of the constructive members of the party to put up the fight necessary to shout down the vociferous and noisy self seeking elements, in favor of the considered action that they know is necessary for our country's well-being.

By passing "vagrant bills" (bills with no visible means of financial support), Congress has shown a shocking lack of responsibility under Democratic leadership. The people won't forget it if they are called upon to pay the price for this Democratic free spending. The high respect in which Mr. Johnson has been held may not survive, and is most likely to put a crimp in personal and party ambitions looking to the 1960 presidential race.

In fact, the uninhibited appropriations will surely boomerang against the Democratic party when, inevitably, it will hit home to the voter in a higher cost of living and the impairment of the savings of a lifetime.

Although the atmosphere is inflationary, the decline in the stock market on news of unbridled spending suggests that sophisticated investors are viewing Congressional action with apprehension. The outlook is no longer being appraised in terms of accellerated business activity, but rather on the extent of damage that will be done to our economy and business operating on the trend toward a 25¢ dollar.

END

Congress And The Stock Market

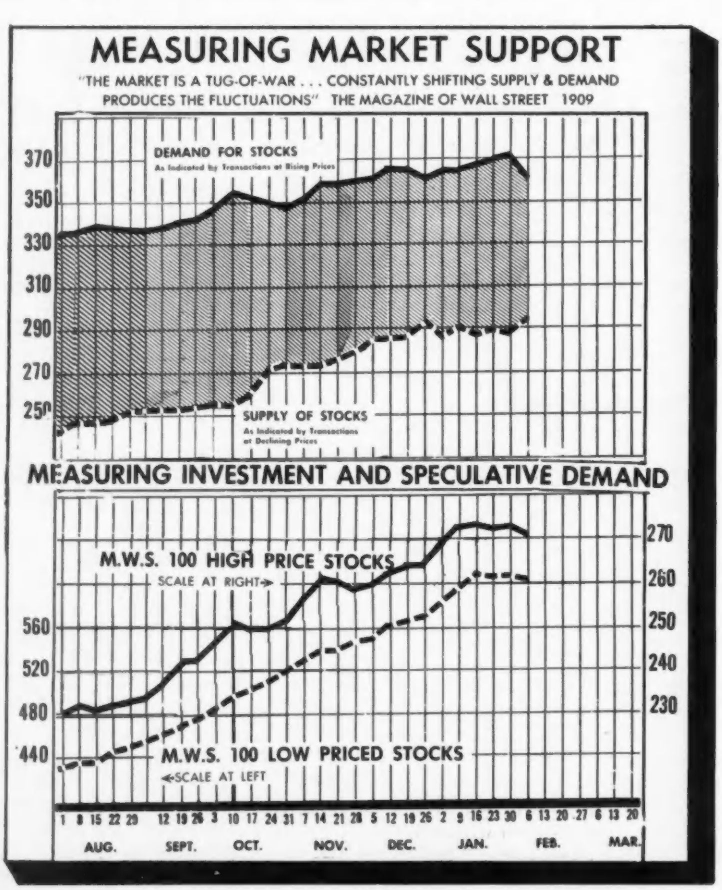
There has been some correction of the market's excessive advance, but not nearly enough. Much will depend on whether spending legislation accelerates the inflationary psychology. Thus far there has been nothing in Washington developments to inspire faith in the long range integrity of the dollar. Therefore, hold to a prudent, selective investment policy.

By A. T. MILLER

Stock prices eased moderately over the last fortnight, paced first by rails and utilities; later, through most of last week, by industrials. So far, it has been a matter of gradual erosion, accompanied by a sizable shrinkage in trading volume. No great amount of liquidation has developed or seems likely to; but demand is less aggressive, willingness to take profit somewhat increased.

With supply and demand in closer balance since the start of the year, the market is fairly thin. It might take little increase in pressure for the erosion to give way to fairly sharp dip for a time. That could clear the air and bring in buyers, since there is no present fear of a reversal of the upward trend in business activity. So far there has been nothing comparable to the November 18-25 sag of 26.92 points by the industrial average in six trading sessions, nor to the one-day dips of 6.18 points and 8.22 points, respectively, on January 28 and January 7.

At last week's close the average's retreat from the all-time high reached in the third week of January footed up to about 15 points in terms of the daily closing level, and about 21 points on the basis of intra-day highs and lows. All ground gained since late December has been given up.



Type Of Correction Unpredictable

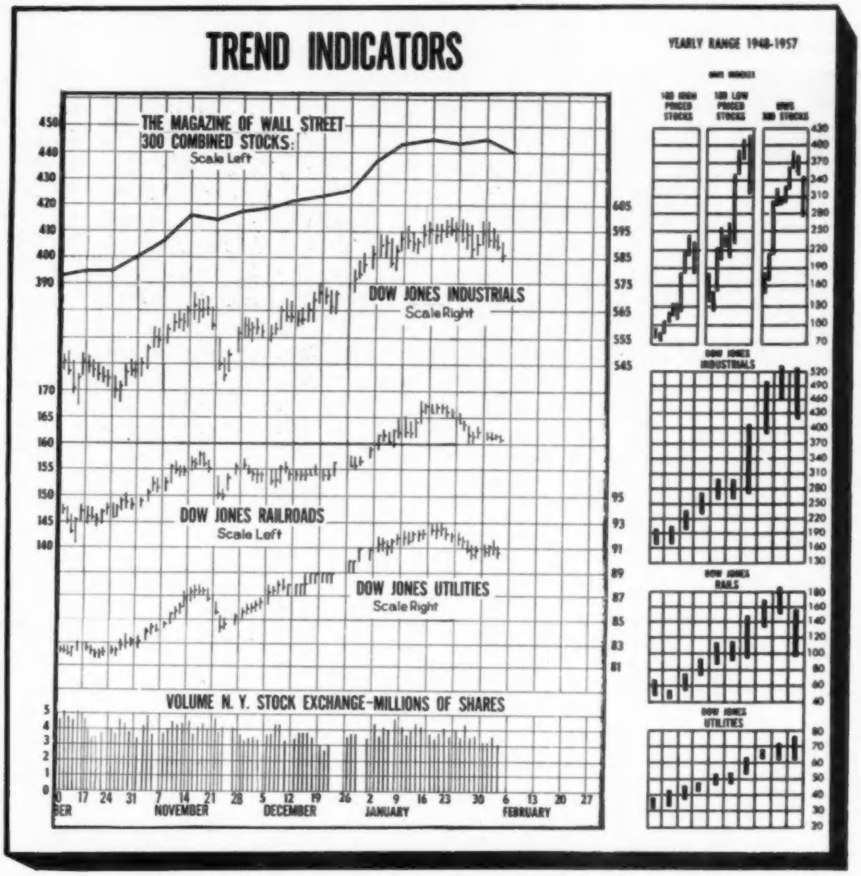
The only thing wrong with the market is that too many stocks have run too far ahead of probable improvement in earnings and dividends; and that, regardless of sound investment foundations, there has been an accumulation of too much speculative excess in lower-grade stocks. More correction appears needed, but its pattern is unpredictable.

Because of expectation of further business recovery, concern about long-term inflation and the capital gains tax, there is reluctance to sell by the great majority of stock holders, and there is plenty of cash, in institutional and individual hands, awaiting placement on hoped-for price dips. That argues against a wide decline. On the other hand, minor dips leave stock prices uncommonly high in relation to earnings and dividends; and that would seem to argue against resumption of fast, broad advance any time soon.

Whether as a result of somewhat deeper dips, or more frequent small dips or more "wait-and-see" pauses, we look for considerably less market rise in the first half of this year than in the

second half of 1958; and we continue to doubt that there is adequate basis for a full-year rise at all similar to that of last year.

The imponderable is to what extent inflation psychology and its contribution to basic supply-demand imbalance in the market might induce a further "stretching" of the valuation standards which at past extremes could not be ignored for long without great peril. Later on, they may well be stretched some more. But, regardless of whether there is more inflation ahead, we are not in a new era of dynamic profit-dividend growth, of sustained high business activity, or a perpetual bull market. The greater the extreme that is reached meanwhile in stock prices or inflation psychology, the more trouble there will be ahead.



As translated into investment psychology — the psychology that has put stock prices to record levels and brought a bear market in Government bonds and other fixed-income securities — the inflation threat centers in Federal deficit spending and the ruthless cost-boosting wage policies of the labor union monopolies. Turning first to the latter, appeals by the President for "moderation" will get nowhere. Effective restraint of some kind may have to be devised and applied eventually by the Government, but is not in sight.

As regards Federal spending, it is already evident that Congress will exceed the limit proposed by the President. By how much it will do so remains to be seen.

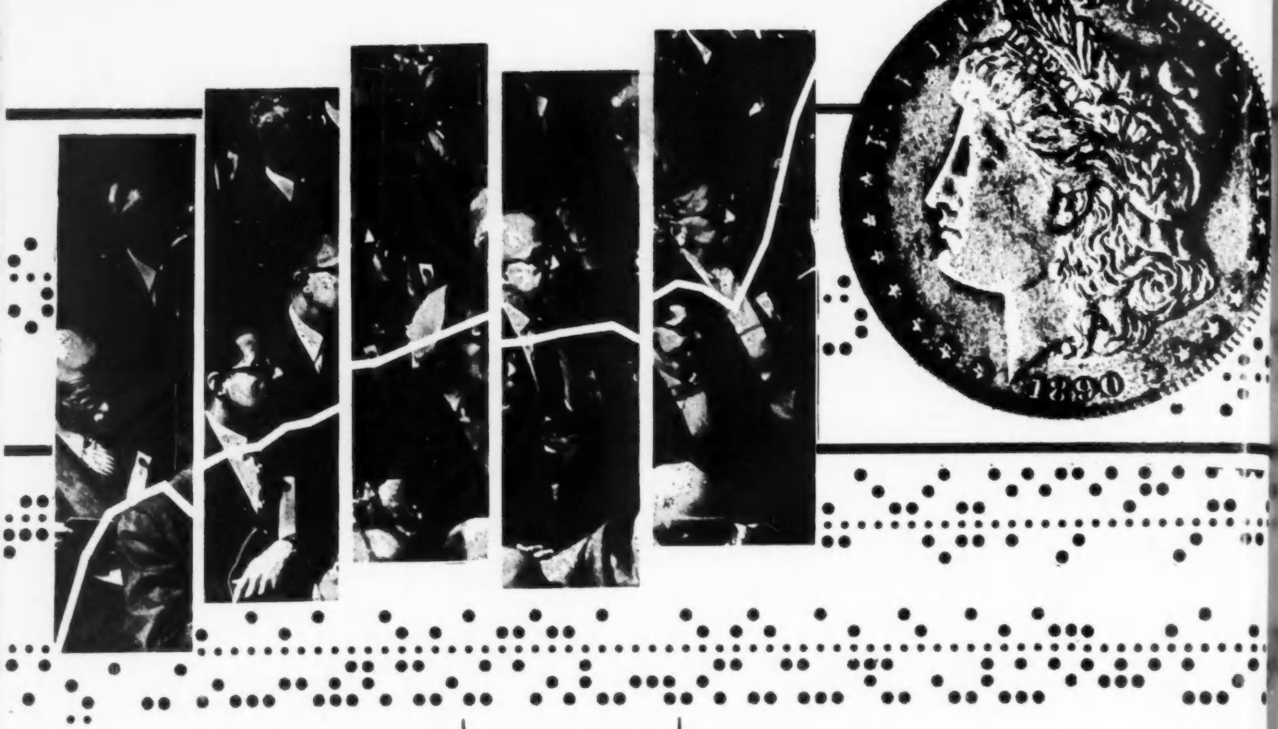
In the financial world there is a crisis of confidence in the dollar; and the continuation of even moderate deficits, under a condition of rising business activity and national income, could further undermine confidence.

But there is nothing like that at present, or in prospect over at least the medium term, in the commercial world, the world of the business purchasing agent, the housewife and the man in the street — the world in which the purchasing value of the dollar is determined not by "psychology," or the Federal budget or upward pressure on wages, but by supply of, and demand for, goods and services.

We have a recovery, but no boom, in demand; while supplies of virtually everything range from ample to excessive. We do not have the shortages, the easy money, the financial liquidity and the sharp rate of rise in private debt on which the previous postwar cycles of business expansion were so largely founded. We have greatly increased productive capacity. So has the rest of the world, with cost advantages, due partly to excessive wage inflation here, which are cutting into our export trade and bringing more import competition into our domestic market. On top of all this, the Communist world is using commodity exports, at cut prices, as a cold-war weapon. You have seen it in tin and aluminum; and you have begun to hear about it in oil, with more to come. *There is a question how long stock market inflation can ignore absence of inflation in the general commodity price trend.*

Outlook For Earnings

The recovery in corporate earnings has been sharp, as is always so in an early phase of business revival; but it has been largely allowed for in stock prices, and future gains, if any, will narrow as costs rise at higher business levels. A gain of 29% in 1959 total pretax profits is officially forecast. That would compare with 31% in the recovery year 1955, with net after taxes up about the same — but peak earnings were reached in the 1955 fourth quarter. Despite subsequent increased business activity, they were not equalled in any quarter of 1955 or 1957. A fair number of individual stocks are already down importantly; but many more still look richly priced. You should hold ample reserves, pending better opportunities for selective buying. — Monday, Feb. 9.



The COLD WAR on the DOMESTIC ECONOMIC FRONT

—Urgent Need for Realistic Labor Legislation in costly Cold War on our Economy and the Working Man by Union Leaders Editor.

By James J. Butler

THE battering ram of strikes is punching gaping holes in the national economy in a cold war which cries out for the attention of Congress but is being temporarily put aside by concentration on how to insure national security within the capacity and willingness of the people to pay.

It should be clear that any labor-management legislation adopted in the reactivated Capitol Hill "crusade" must fall short of the objective unless there first is action to cure an elemental weakness: No one has fully marked out the problem to be overcome; specifically, no one (in government or industry) has focused the enormous and avoidable economic loss due to strikes.

Since Congress has not used its mechanisms of discovery as fully as it should, and private business doesn't possess the machinery for a full canvass, only public demand upon Washington has the power to stir action. Meanwhile, Congress is launching another "labor law" sortie without the weaponry of fundamental facts: What is the cost, and who bears it? Union dominated legislators who equate the right to strike with the right to destroy, would find upon objective inquiry that the cost and the inconvenience borne by labor and the public outweigh the damage inflicted on the intended target in many situations. What is suggested here is more a bill *for* labor than a "labor-management bill." With the blindfolds off that fact stands out.

The opportunity, the duty, of Congress to explore is presented in two actions which have been initiated, one in each House. The most publicized of recent strikes, and the ones creating the greatest mischief-laden waste and defiance of the rights of the public, have been against airlines, and newspapers.

Protecting Labor From Its Leaders

Senator George Smathers of Florida, has a program afoot to put a halt to airline stoppages; Rep. Frank Chelf of Kentucky, is moving along similar lines to block invasion of the constitutional guaranty of free press which he finds basic in strikes which shut down newspapers.

Smathers and Chelf are friends of organized labor. It is in that role that they are moving. Theirs is an effort to save workingmen — union men — from the economic prostration being visited upon them.

An example: Several months ago, 13 web pressmen on Washington, D. C. newspapers walked out in a labor contract disagreement and made more than 1,000 employees of publishing companies jobless. The number of persons adversely affected was multiplied in the distributing trades, the truckers, the newsboys, and the newsstand operators. The Nation's Capital, with more than 1 million persons within the circulation area of the papers, was left without printed news. Department and other stores felt the impact in sharply curtailed patronage of sales events. *Because of 13 strikers!*

Many more illustrations are at hand to point up some of the fruitful fields of investigation in which Congress can bestir itself. Take the rash of airline strikes which have just been settled one at a time.

Here are the revenue losses to companies resulting from December strikes of mechanics and pilots: Eastern, $28 million; American, $18 million; TWA, $1[illegible] million; Capital, $11 million. Total, $70 million. The question whether other lines may assist the struck carriers (out of added revenue which came their way) has been answered affirmatively.

But there is no appeals board and no recapture possible for *working pilots who were mulcted of $500 assessments each month that other pilots were grounded by their own decision. The assessment is payable at the rate of $125 a week.*

This reduced the income of the non-striking pilot, and it left the striker with a fraction of his normal take-home pay. The striker will not repay his benefactor, whose only compensation is the hope that if he strikes later he will be similarly supported. On short rations, to be sure, as pilot salaries go, but supported.

►A lesson could have been learned (evidently was not) from the strike against Phelps-Dodge at Bisbee, Douglas, and Morenci, Ariz. About *4,765 employees were idled for 30 working days, losing a total, for the 30-day strike period of $2,503,050.*

Settlement of the strike *brought an average increase in wages of 15 cents an hour;* but since the *employees were offered* an average increase of *12½ cents an hour* before the strike, the *actual gain was 2½ cents an hour.*

Dividing the total lost wages ($2,503,050) by the daily increase for all 4,765 employees ($935), it appears that the employees must work 2,626 days to make up their lost wages out of their actual gain. If we figure a five-day week that means 10 YEARS of work just to break even.

Provisions Inadequate

Under the provisions of the Taft-Hartley Act, whenever the national health, safety or welfare is imperiled by threat of strike, the government has the power to take effective action to cope with the situation. But railroad and airline industries are exempt from the provisions of the T-H Act. They come within the jurisdiction of the Railway Labor Act, which has no comparable authority to move against stoppages. Under existing law there are no provisions which can assure transport operations during periods of negotiation between management and labor. Yet the airline industry is a quasi-public utility and its employees are performing a service essential to the public welfare. The industry is government-licensed, government-supervised, government-protected and, in some instances, government-subsidized. *All of this being true, the Congress has a greater responsibility than it has with respect to ordinary business and industry.*

Senator Smathers proposes that the utility coloration be taken into consideration and that both strikes and lockouts be declared illegal during contract negotiations. The Floridian finds this no substantial extension of existing attitude: "The government has even limited competition in this field and when it becomes non-operational a substitute for its activities is not at hand."

Under the Smathers program, the agreement ultimately reached between management and labor could carry retroactive provisions. This is suggested as a means of fulfilling a governmental responsibility to the public while doing equity to both management and labor involved. Unless existing law is revised, Senator Smathers sees the public continuing the role of innocent, but victimized, bystander.

Getting Down to Brass Tacks

The share-the-grief program of airlines as approved by the Civil Aeronautics Board permits companies which have been struck to be compensated by operating lines in the amount of computable additional revenue diverted to them by the strike. It will apply only in situations where the stoppage was in defiance of recommendations of a Presidential Board, of the Railway Labor Act, or when the union has not exhausted available remedies under the RLA. It is immediately apparent that this *arrangement, as approved by CAB, cannot go to the root of the trouble. It is palliative, not cure; it is directed to a labor abuse but it is not preventative, coming into existence after-the-fact — after a strike is in force.*

Pot Calls the Kettle Black

In the voluminous record of testimony, briefs and exhibits filed with CAB, there appears to be no emphasis on the fact that labor unions, as normal practice, assist one another with loans and gifts designed to prolong strikes by relieving the economic pressure on one side — the striking union's. The distinction between this form of aid and the airline agreements was not apparent. *One of the objections to the company plan gleaned from the stack of briefs was a possible violation of the antitrust laws. Why unions have seen fit to make this point raises interesting questions.* It comes at a time when the business community is pleading with Congress to look to the equities of labor-management affairs and place labor under the Sherman and Clayton Acts. It could be that the laborites have reviewed the past record of Capital Hill and see nothing to fear from Congress!

If CAB ruled against management and its mutual assistance pact, a telling point would have been scored for making the same principle statutorily applicable to the unions, and in the most practicable way — by inclusion under the antitrust laws.

A Fair Proposal

Rep. Chelf's thinking on the subject of newspaper strikes meshes with the expressions by Senator Smathers. Neither proposes a no-strike bill. Each

envisions a cooling-off proposition except that no time limit is specified within which negotiations must culminate in an agreement, or failing that a strike may be called. The circumstances of each case would control. If either side fails to pursue bargaining in good faith, all bets would be off: a strike would be legal if management commits the departure; if the union becomes recalcitrant or evasive and uses its own dereliction as an excuse for strike, it might find itself heavily penalized in money damages, with each day of non-compliance a new offense, adding to the penalties.

How this legal machinery can be made to operate effectively is a lesson John L. Lewis and his Mine Workers learned when they had a multimillion dollar fine slapped on them by Judge T. Alan Goldsborough of the District of Columbia District Court.

Major Labor Contracts Expiring in 1959

INDUSTRY AND COMPANIES	UNION	Expiration Date	No. of Employees
AIRCRAFT			
Boeing (Wash., Fla.)	Machinists	May *	37,800
Boeing (Kans.)	Machinists	July *	15,000
Curtiss-Wright	United Auto Workers	Sep.	13,500
ALUMINUM			
Alcoa	Aluminum	July	10,600
Alcoa, Kaiser, Reynolds	United Steel Workers	July	33,000
APPAREL			
Cloak and suit mfrs.	I.L.G.W.U.	May	50,000
COMMUNICATIONS			
Northwestern Bell Tel.	Communications Workers	Jan.	20,000
Bell Tel. of Mich., N.J., Ohio, Pac. T.&T., and 4 other tel. cos.	Communications Workers	Feb.	120,000
So. Bell Tel.	Communications Workers	May	55,000
Am. Tel. & Tel. Long Lines	Communications Workers	June	25,000
CONTAINER			
Amer. Can, Continental Can	United Steel Workers	Sept.	37,000
FOOD PRODUCTS			
California Packing	Teamsters	Feb.	12,000
California Processors and Growers	Teamsters	Feb.	60,000
Major Meat Packers	Packinghouse; Meat Cutters	Aug.	100,000
MINING			
Anaconda and Kennecott	Mine, Mill Workers	June	18,300
PAPER			
International Paper	Three Unions	May	11,000
Pac. Coast Assn. of Pulp & Paper Mfrs.	Papermakers and Pulp Workers	June *	19,000
PETROLEUM			
Major Oil Companies	Oil Workers	June	100,000
RUBBER			
Firestone, Goodrich, Goodyear, U.S. Rubber	Rubber Workers	April	94,000
RAIL EQUIPMENT			
General Amer. Transport., Pullman	United Steel Workers	Aug.	11,500
RAILROADS			
All Class I Railroads	All Railroad Unions	Oct.	1,000,000
Railway Express	Clerks	Oct.	35,000
SHIPBUILDING			
Pacific Coast Shipbuilders	Metal Trades	June	15,000
Bethlehem Steel	Marine	July	12,000
SHIPPING			
Pacific Maritime Assn.	West Coast Longshore.	June	15,000
N. Y. Shipping Assn.	East Coast Longshore.	Sept.	30,000
STEEL			
Bethlehem, Republic, U.S. Steel	United Steel Workers	June	300,000
TEXTILES			
Dan River	United Textile Workers	May	9,000
American Viscose	United Textile Workers	June	11,000

* Contract does not expire this year but can be re-opened for wage demands.

The Smathers and Chelf proposals touch identified lines of business, each of which is in a public interest classification not common to labor disputes. But the precedent would be of monumental importance. With refinements to cover all cases such laws might very well represent the most important labor-management legislation of the current session if not, in fact, the only venture into the area of labor laws.

Before going into the circumstance of James Hoffa's contumacious proposal to organize police and firemen in unions with Hoffa-like view toward morality (a type of labor weapon certain to be covered by the Smathers-Chelf recommendations), it might be well to consider the Kentucky congressman's motivation. Chelf spoke up after the New York City newspaper strike had idled thousands and mounted losses of *many millions of dollars, most of it wrung from people who weren't even consulted about the strike.* He conceded his proposition plays two legal tenets against each other: One, the Constitutional guarantee of a free press; the other, the court-upheld right to strike. But Chelf asks:

"If a strike against a newspaper isn't suppressing the press or the news and with it the freedom of thought, I wonder what is?"

Warming to his subject the Kentuckian submitted: "In my judgment it is just as serious to shut down a newspaper by strike as it is by order or an edict of the roughest dictator. Both methods have the same end result: the newspaper is deprived of expressing itself in its editorial columns because there are none allowed to be printed — if printed, not allowed to be circulated or delivered."

New York City's $50 million newspaper blackout ended Dec. 28, 1958, after 19 days. Involved was a labor contract with the deliverers' union but in spite of openly expressed condemnation by other unions, members of those crafts refused to cross picket lines. Circulation of the struck papers totals 5.5 million daily and 8.5 million on Sundays. Some of the more direct costs have been compiled. They make interesting reading:

The papers lost $25 million in anticipated revenues, based on normal business plus the Christmas advertising emphasis. Merchants associations counted their economic hurts and translated the result into another $25 million, irrevocably lost. Employees furloughed by the publishing companies

(Please turn to page 550)

Part One

WHAT 1958 EARNINGS REPORTS REVEAL

—and Keys to First Quarter Trends

By Harold B. Samuels

CORPORATE annual reports now being released in profusion are a remarkable testimonal to the resiliency of the American economy, the vitality of our huge corporations and the resourcefulness of management. In the first nine months of 1958, profits had slid almost thirty percent behind 1957 results, yet by the fourth quarter they had recovered to a point which should prove equal to the pre-recession annual rate of $22 billion.

In other words, corporate profits outpaced the business recovery—and most of it was done the hard way. For it was only in the latter months of the year that sales began to show an appreciable rise. Before that the groundwork had been laid in well designed cost-cutting programs and the wholesale trimming of prosperity-bred "fat" within most organizations.

The rise in fourth quarter profits is the measure of corporate success in achieving these ends, but the results can also be seen in the rapidly rising curve of industrial productivity, which in the past six months exceeded the gains scored in the recoveries of 1949-50 and 1954-55. It is significant in this connection, that many key industries have returned to their former profit levels with smaller labor forces than before, indicating that the billions spent on cost cutting machinery, plus the measures adopted during the recession, are now paying off.

However, the vital question for investors is whether the impressive up swing in profits can continue, or whether we will witness again the pattern of 1955, when profits first recovered sharply then remained relatively fixed until they began to slide again at the end of 1957. To arrive at an answer we must first investigate the primary causes of the upswing.

Why Profits Surged

In the initial jump of a recovery profits *always* rebound rapidly. For one thing, companies meet the initial demand for goods by shipping merchandise that has been sitting on shelves during the recession, and for which most production costs have already been absorbed. Then, as the recovery progresses workers on the job are moved first to a full-time status, and then an overtime basis before laid off workers are called back. Thus, initially, revenues pick up while costs remain low.

In this recovery, however, industry had another important factor contributing to fast rising profits. Paradoxical as it may seem, this was excess capacity. For capacity is the measure of the total productive ability of an industry, but the plants and facilities within the industry range from the old and near-obsolete to those that are brand new. Needless to say, as the recovery progressed demand was met with output from the new, efficient plants while the older units lay idle. The result was a sweeping recovery in profit margins.

Another significant factor in the bounceback was the surprisingly liquid condition of most corporations accruing from their large depreciation schedules. As a result, not only were dividends relatively well maintained, but the companies also had ample funds at their disposal to finance the initial business recovery, without relying too heavily on costly borrowings. An indication of how significant this factor actually was, can be seen from the fact that although per share earnings on the Dow-Jones Industrials probably fell about 23 per cent for the full year in 1958, cash earnings per share slipped by only half that much.

The huge capacity also contributed to profits recovery in another way. Large supplies of raw materials throughout the world kept prices from rising rapidly as the upswing set in. At the same time prices for manufactured goods remained firm. The obvious result was higher profits. This can be seen best in the steel industry where profits recovered sensationally for many companies in the last quarter despite the fact that last summer's price increase was the smallest in years. In effect the combination of lower labor costs, and lower raw materials costs more than compensated for the smaller price increases.

All of these factors are observable to some extent in most corporate annual reports. Thus, **Union Carbide** which at mid-year appeared to be in dividend trouble, closed the year with a rush. Sales for the year remained behind the 1957 figures, but earnings in the final quarter were 16% better than the third quarter and a full 34% ahead of last year's fourth quarter. Renewed demand from the resurgent steel industry sparked Carbide's recovery, but the company took full advantage of the upswing by concentrating on production from its newest plants, while instituting rigid economies at all levels of operation. Operating profit (which stockholders seldom see) improved in each quarter of the year as a result of these moves, and by year-end reported profits were also showing improvement.

Earnings per share, reflecting the sharply depressed first and second quarters trailed 1957, $4.15 to $4.45, but cash earnings, resulting from Carbide's rapidly rising depreciation schedules rose to $7.30 per share from $7.05 a year earlier.

Carbide's fortunes will remain tied to the steel industry more than any other single segment of the economy, but it has proved its ability to maintain good profit margins in good times and bad.

Can Industry Retain the Pace?

But the question for Carbide, as for most of American industry, is whether the rapid recovery can be maintained. Eventually, older and less efficient plants will have to be brought into production. Labor costs are already mounting despite the slow return to full employment—and for some the sharp drop in backlogs experienced in 1958 may hurt profits in 1959 and 1960.

International Business Machines, the undisputed leader of the office equipment field provides an example of this type of potential trouble ahead. Results in 1958 were exceptional. Sales climbed $171 million to $1,171,000,000 while earnings per share soared to $10.65 from $7.54 a year earlier. However IBM earned $1.30 per share from the direct sale of equipment to customers under a 1956 Federal court consent decree. Since this arrangement with former rental customers ended in July 1958 these earnings will not be available next year.

Moreover, Thomas J. Watson, President of IBM went out of his way to inform stockholders of a sharp drop in the rate of incoming orders. As a result of the large backlog on the books, this order trend will not be reflected in earnings for some time, but unless there is a sudden resurgence, late 1959 and early 1960 earnings could be adversely affected.

Company Reports

In the accompanying table we have taken pains to include representatives of a wide group of industries. This serves a two-fold purpose. First it demonstrates clearly the universality of the profits recovery in the last quarter—and secondly it gives us a chance to appraise the future profit potential for a broad segment of American industry. Needless to say, despite generalizations, special factors will affect the reported profits of each company.

Thus, **American Motors,** despite its remarkable Cinderella story will find it almost impossible to match its 1958 rise in earnings in 1959. The reason is contained in one small word—taxes. In the year that ended September 30, 1958, American Motors earned $4.65 per share compared with a deficit of $2.12 the year before. These excellent results were achieved on the strength of the scale of about 150,000 cars. But in 1958 American Motors had no tax liabilities.

In fiscal 1959, however, first quarter earnings of $3.65 were sufficient to wipe out all of the company's remaining tax credits, so that for the balance of the year the collector will take the same 52% of earnings he takes from everyone else. Thus, even though car sales are expected to rise to almost 300,000 this year—and earnings are bound to advance—the rise will not be nearly as sensational as last year.

Moreover, American's future is complicated by the threat of Big company invasion of the small car field. Undoubtedly the popular Rambler is well enough entrenched to withstand much of such an

onslaught, but some sales are bound to be lost to the larger and more formidable companies.

On the other hand, **Allied Chemical** appears to have no special problems in the way of a solid earnings recovery in 1959. Results in 1958 were disappointing, but here too, detailed analysis shows a far better picture than outward appearances. Net income dropped to $3.41 per share from $4.37 in 1957, but fourth quarter earnings rose 34% above the third quarter, and at $1.09, were 3% ahead of last years final period.

Moreover, profits earned on sales improved considerably as the year progressed as can be shown from a comparison of first and last half figures. In the first six months Allied earned $1.55 on $315 million sales, but jumped this figure to $1.86 on $320 million in the final six months. In the year ahead, the company should enjoy better activity in its coke oven construction division, which was severely depressed in 1958, and should also have the advantage of a firmer price structure for basic chemicals. As a matter of fact, most industry sources forsee moderate price increases in the near future.

With profit margins recovering, Allied should be able to return to 1957 earnings by the end of the year.

Firestone Tire & Rubber is another company that appears headed for a full recovery year in 1959. Fourth quarter earnings surged to $2.08 per share compared with $1.64 in the third quarter, but net for the year was still only $6.24 against $7.32 for 1957. However, replacement tire sales spurted sharply for the entire industry last year and a similar experience is expected in 1959. Therefore, virtually any improvement in new car sales should raise original equipment tire sales to respectable levels.

Moreover, Firestone has reaped such exceptional results from the stable price of synthetic rubber, that two new plants are now under construction for the production of two new types of synthetics

Comparative Sales, Earnings & Net Profit Margins of Leading Companies

	Net Sales 1957 (Millions)	Net Sales 1958 (Millions)	Net Profit Margin 1957 %	Net Profit Margin 1958 %	Net Per Share 1957	Net Per Share 1958	Net Per Quarter 1958 1st	2nd	3rd	4th
Air Reduction	$ 189.9	$ 175.3	8.6%	7.6%	$4.35	$3.47	$ .88	$ .83	$ .83	$ .93
Allied Chemical	683.0	635.5	7.5	5.3	4.37	3.41	.69	.86	.77	1.09
American Brake Shoe	186.8	138.0	4.8	3.4	5.67	2.97	.64	.92	.27	1.13
American Motors	362.2	470.3	d3.2	5.6	d2.12	4.65	.88	.43	1.30	2.04
Armco Steel	1,073.7	867.5	6.3	6.5	4.71	3.87	.63	.79	.87	1.42
Armour & Co.	1,935.7	1,850.4	.1	.2	.72	1.19	—	.45[1]	—	.74[1]
Atlantic Refining	565.9	538.1	6.3	6.2	3.82	3.61	.26	.52	1.24	1.59
Bendix Aviation	711.2	623.7	3.8	3.3	5.44	4.18	.97	.76	.92	1.53
Bethlehem Steel	2,603.7	2,005.9	7.3	6.8	4.13	2.91	.52	.61	.55	1.23
Blaw Knox	183.9	167.0	3.7	4.1	3.99	3.80	.92	.98	.81	1.09
Carrier Corp.	263.4	252.2	2.8	2.9	3.17	3.27	.10	1.32	1.21	.64
Caterpillar Tractor	649.9	585.1	6.1	5.4	4.35	3.48	.36	1.20	1.54	.39
Container Corp. of Amer.	256.1	259.2	5.6	5.6	1.36	1.35	.31	.34	.35	.35
Crown Zellerbach	460.6	468.8	7.4	7.0	2.39	2.32	.44	.54	.65	.69
Douglas Aircraft	1,091.3	1,209.9	2.8	1.3	8.28	4.41	2.87	1.09	1.02	d.57
Dresser Industries	274.4	225.2	7.5	4.3	4.60	2.14	.70	.41	.53	.52
Firestone Tire & Rubber	1,158.8	1,061.5	5.3	5.0	7.32	6.24	1.37	1.13	1.64	2.08
Hercules Powder	245.2	236.5	7.4	7.4	2.14	2.04	.38	.51	.59	.89
Ideal Cement	78.2	91.5	18.5	18.8	1.38[2]	1.64[2]	.17[2]	.45[2]	.57[2]	.44[2]
Inland Steel	772.3	661.2	7.6	7.2	10.34	8.32	1.39	2.12	2.11	2.73
International Business Machines	1,000.4	1,171.7	8.9	10.8	7.54	10.65	1.97	2.30	3.45	2.93
Johns-Mansville	308.2	304.1	5.7	7.2	2.48	3.06	.27	.85	.98	.96
Jones & Laughlin	837.5	654.0	5.4	3.5	5.65	2.79	.17	.47	.81	1.34
Kennecott Copper	467.9	395.3	16.9	15.0	7.17	5.37	1.08	1.04	1.37	1.88
Koppers Co.	327.0	260.6	2.9	2.5	3.86	2.62	.36	.44	.61	1.21
Libbey Owens Ford Glass	237.2	216.9	11.8	9.8	5.36	4.10	.73	.41	.99	1.98
Monsanto Chemical	708.0[3]	714.4[3]	6.9	6.0	2.20[3]	1.93[3]	.34[3]	.41[3]	.51[3]	.66[3]
National Biscuit	424.5	413.3	5.1	5.3	3.18	3.18	.71	.74	.70	1.03
National Distillers & Chemical	538.5	524.3	4.2	3.8	2.05	1.76	.49	.39	—	.88[1]
Owens Corning Fiberglass	163.3	176.7	5.5	6.2	1.36	1.67	.29	.33	.45	.60
Philco Corp.	372.6	351.0	1.1	.8	.91	.61	d.28	d.13	.42	.60
Philip Morris	408.8	440.8	3.8	3.8	4.50	4.90	.82	1.31	1.33	1.44
Phillips Petroleum	1,131.7	N.A.	8.5	—	2.80	2.45	.60	.46	.62	.77
Raytheon Mfg. Co.	259.8	275.1	1.8	2.5	1.70	3.08	.58	.71	.82	.98
Republic Steel	1,227.2	910.3	6.9	6.8	5.45	3.96	.55	.98	.97	1.46
Rohm & Haas	174.0	176.6	8.9	8.2	14.04	13.05	2.60	3.11	3.09	4.25
St. Regis Paper	376.8	376.7	5.7	5.5	2.52	2.42	.41	.51	.59	.90
Smith Kline & French	115.4	124.0	17.8	16.9	4.27	4.33	1.04	1.11	1.17	1.01
Stevens (J. P.) & Co.	417.7	386.3	2.1	2.8	2.10	2.60	.35	.32	.60	1.33
Sunshine Biscuits	183.7	189.3	4.2	4.3	6.71	6.89	1.53	1.59	1.84	1.93
Union Bag-Camp Paper Corp.	160.7	156.9	11.2	9.9	2.47	2.13	.47	.46	.55	.65
Union Carbide Corp.	1,395.0	1,296.5	10.4	9.1	4.45	4.15	.76	.90	1.15	1.34
West Virginia Pulp & Paper	199.9	208.1	6.3	4.6	2.38	1.78	.35	.52	.39	.52
Westinghouse Electric	2,009.0	1,895.7	3.6	3.9	4.18	4.25	.73	.97	1.08	1.47
Youngstown Sheet & Tube	688.2	506.9	6.1	4.2	12.35	6.23	1.04	1.23	1.06	2.91

d—Deficit
N.A.—Net available.
[1]—6 months.
[2]—After 3 for 1 stock split.
[3]—Includes Dom. & For. subs. and proportionate share of 50% owned associated companies.

that should reduce costs even further.

Trouble For Steel?

In the steel industry the outlook is not so clear, despite the exceptionally fine recovery scored by most companies in the group. There can be no doubt that steel companies demonstrated dramatically the advantages of modernization last year. Almost without exception the major companies performed profitably even when operations dropped below 50% of capacity in the first half of the year. Furthermore, profits recovered sensationally fast for many of them as operating rates expanded.

Thus **Bethlehem**, after a painfully slow start in which the company failed to cover its dividend requirements in each of the first three quarters, surged at year end to show final earnings of $2.91 per share. Though down sharply from last year's $4.13, the $2.60 dividend was covered, and fourth quarter earnings bounded to $1.23 per share from the severely depressed 55¢ of 1957's fourth quarter.

Similarly, **Republic Steel** cashed in on its $600 million improvement program by mantaining profitable operations all through the year. The resurgent $1.46 earned in the last quarter carried full year net up to $3.96 per share. Although well below the $5.45 earned a year earlier it is significant that Republic maintained stable profit margins despite a 26% drop in sales.

Both companies have entered 1959 at a high rate of operations, but overhanging the entire industry is the threat of a strike this spring. Thus, until the labor difficulties are settled we cannot know for sure whether current demand reflects actual need for steel, or hedge buying by large users against the strike possibility.

Some indication that not all is as rosy as appears on the surface can be seen by cutting through the statements of Bethlehem officials. Though orders currently are at excellent levels, a good deal is coming from the auto industry — and this is probably hedge buying. Otherwise, the company "expects" a rise in construction industry orders, but they haven't materialized yet — and admits that shipbuilding is slow, especially the commercial variety.

Despite its excellent showing to date, therefore, investors would be wise to tread easy with the steels until the industry's future is clarified.

Major Companies Score Well

Almost without exception the major companies in each industry scored the most impressive recoveries. As a matter of fact. **Libbey-Owens-Ford** surged so rapidly as General Motors production picked up (LOF is GM's major glass supplier) that directors were encouraged to split the stock early in the new year. Until the final period, earnings were pathetically below last year, but the $1.98 per share earned late in the year carried full year net to a respectable $4.10 per share. Though still well below the $5.36 earned in 1957 the new trend seems established and should last well into the first half of the year. After that it will depend on new car sales.

In the construction industry, **Johns-Manville** enjoyed an exceptionally fine year. Sales slipped to $304 million from $308 million a year ago, but the exceptional efficiency of the company's new plants, combined with rigid cost cutting in every division led to an earnings increase in each of the last three quarters. The final result was profits of $3.06 per share, well above the $2.48 scored in 1957. However, it should be pointed out (as it was in the Magazine of Wall Street in an article on mergers in the issue of October 25, 1958) that the inclusion of sales and earnings for the newly acquired L.O.F. Glass Fibers Co. would have reduced reported earnings to $2.83 per share. In time however the new subsidiary should add to earnings.

Another star performer this year was **Raytheon**, which continued its rapid earnings rise of the last two years. Last year's $1.70 per share was a sensational improvement over the year before, but even more impressive was the $3.08 Raytheon reported for 1958. The company's heavy missile and electronics backlog indicates still further gains in 1959.

Among the metals companies, **Kennecott Copper** led the way in the fourth quarter with earnings that topped the same period a year earlier. The $1.88 per share in the final period pulled full year earnings up to $5.37 per share against $7.17 a year ago. For the near future the better earnings should continue. It is unlikely that copper prices will get exceptionally strong, but it is equally improbable that they will soon sink back to the severely depressed levels of the early months of 1957. With 29¢ or 30¢ copper, this exceptionally efficient company could conceivably return to a $6.00 dividend basis later in the year.

Westinghouse Electric also scored a small gain in profits in 1958 despite a drop in sales, but it must be pointed out that tax considerations tipped the scales. Per share net came to $4.25 compared with $4.18 last year, but the company realized a $7.5 million tax credit through mergers of subsidiaries. Without the credit reported earnings would have been 42¢ per share lower.

Some Disappointments

Despite the generally better showing, some major companies failed to measure up in the fourth quarter. **Caterpillar Tractor** which had been improving steadily from its severely depressed first quarter slipped again badly in the fourth quarter. Earnings came to only 39¢ per share compared with $1.54 in the third period. In fairness however, it should be noted that the early and severe winter undoubtedly cut heavily into last quarter sales of roadbuilding equipment.

Also disappointing was **Douglas Aircraft's** final results. Heavy charge-offs are understandably cutting net income, but the severe drop in the fourth quarter reduced full year earnings to only $4.41 per share from $8.28 last year.

Despite the drop however, Douglas' backlogs have held up well, especially for the higher profit commercial jetliners. As a result, earnings should recover by 1960 as write-downs of developmental costs ease.

On the other hand, the small fourth quarter decline registered by **Smith-Kline & French** points up a spreading trend of smaller earnings advances for the drug companies. It first became noticeable in the second quarter of 1958, and although not yet serious, it will bear close watching by drug industry investors. Competition is increasing sharply in the industry and profit mar- *(Please turn to page 549)*

Impact of FORD'S re-entry into AUTO FINANCING

- **What it means . . . To the Finance Companies**
- **To banks offering time purchases of Ford Cars**
- **To C.I.T. Financial — and Commercial Credit**
- **Comparing Ford earnings with GM, which includes GM Acceptance Corp.**
- **What about 1959 Automobile Industry Outlook?**

By Robert B. Shaw

IT IS doubtful whether any other corporation ever grew as rapidly in a mere quarter of a century as the Ford Motor Company. By the late '20's this still youthful giant represented one of the best examples of vertical integration in American industry. Its manufacture of the sturdy model T's and model A's began with the mining of coal and iron ore on its own far-flung properties, and its relationship with each customer terminated only with his final payment to Ford's subsidiary finance company. But then, whether the depression dictated some retrenchment or Edsel, when he assumed the reins, had less expensive ideas than Henry, the company began to cut off some of these appendages. In 1929 it disposed of the Detroit, Toledo & Ironton R.R., in 1933 its Blueberry iron mine at Ishpeming, Minnesota, and in 1936 the Fordson Coal Company. And, on May 12, 1933, it sold its Universal Credit Corporation subsidiary to Commercial Investment Trust (C.I.T.) for $30,000,000.

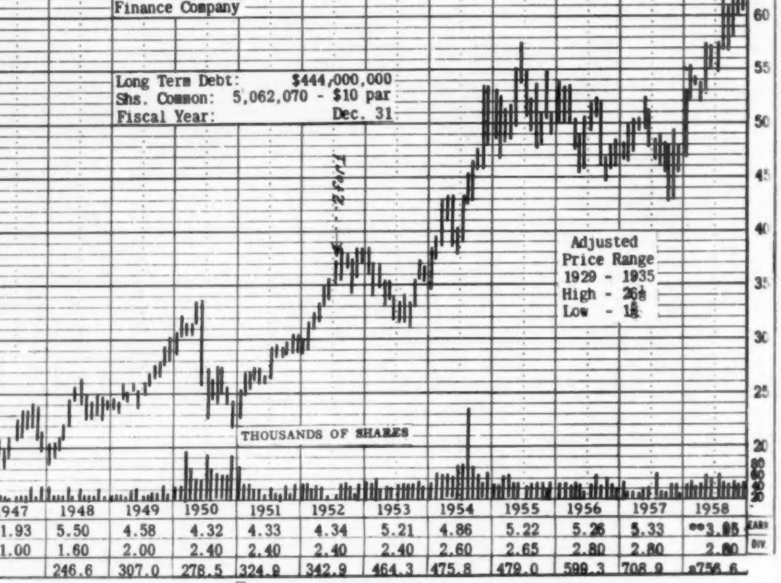
For its second quarter century Ford got along without a financing affiliate. Then, on January 14th of this year it hurled a stunning thunderbolt into the credit world when it announced its plans to re-enter the new car financing field. No details have been specified as yet, but it seems obvious that if this new operation is to amount to more than a drop in the bucket, either in terms of Ford's annual sales ($5,771,000,000 in 1957) or in comparison with existing auto finance companies, a financing deal of a quarter of a billion dollars at the minimum is in the offing.

What's the Reason?

This reversal of Ford policy prompts a number of questions by investors both in automotive and

finance companies. Why is Ford doing this? What will it mean to existing finance companies? To other motor car manufacturers? Does it offer any hint as to the outlook for new car sales this year?

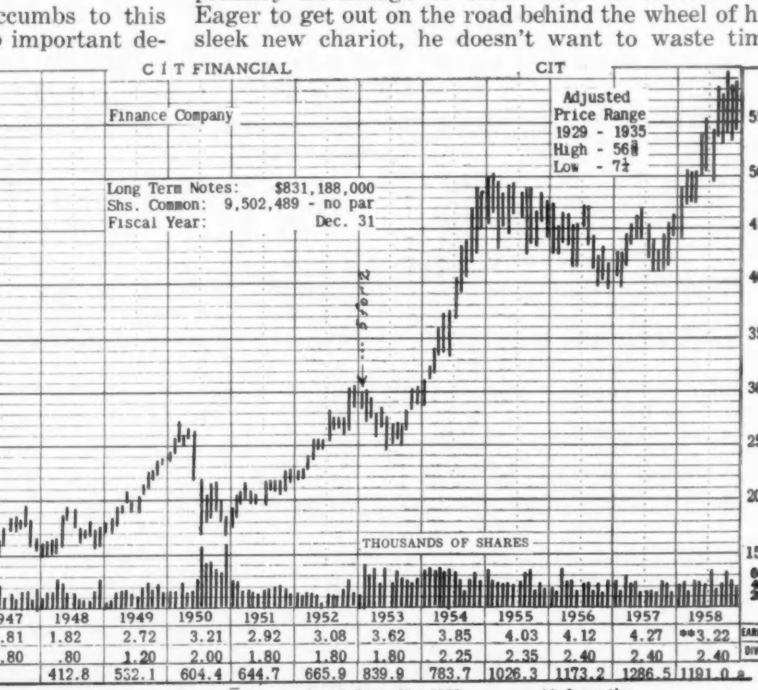
It may not be possible to answer any of these questions precisely, but some light will be thrown upon them by a brief examination of more recent automotive developments. Back in 1955, Americans bought automobiles in record numbers. But subsequently, to Detroit's sorrow, automobile sales have sagged badly. The extent to which this decline was due to relative saturation of the market or the general recession is debatable, but Detroit, with its much vaunted forward look, is not interested in history. The motor industry's answer to any lack of public appetite for its products is always something still more appealing, and in 1959 it has a variety of attractive new lines incorporating refinements both in styling and performance. The industry naturally hopes that the typical John Doe, however serviceable his 1955 buggy may still be, will somehow find it old-fashioned and unattractive, making him irresistibly fascinated by the shiny new models in the show-window of his local dealer.



Financing a Car

But, assuming that John Doe succumbs to this itch for a new car, he still faces *two* important decisions: first, which make to buy; secondly, how to pay for it. Even in this era of unparalleled prosperity, relatively few Americans could afford to own a car if they were compelled to pay for it in a lump sum or even to make any very substantial down payment. Reliable records show that two-thirds of all new cars in this country are bought on time, with payments extending over an average of thirty months. While there are still a few old fogies around who condemn the "installment plan," it seems clear that only the wide availability of easy credit has created an automobile market broad enough to bring costs down within the purchasing ability of the average citizen.

After John Doe, or perhaps his wife, has selected the particular car he wants, he will find a variety of credit sources eager for his patronage. After some years of indifference to such loans, large commercial banks are now competing actively in the auto financing field. Or Doe may borrow from a small loan company against some collateral or merely on his general credit and earning power. Perhaps he can obtain accommodation from a credit union or some other specialized lending agency. But most likely of all he will finance the purchase of his new dreamboat with one of the giant sales finance companies which enjoy close tie-ins with auto dealers. As far as Doe is concerned, the primary advantage of these firms is convenience. Eager to get out on the road behind the wheel of his sleek new chariot, he doesn't want to waste time



shopping around for the lowest rate, which is, in any case, hard to determine, among the various lending agencies. He can sign the finance company papers right at the auto dealer's. The same organization will obligingly take care of insurance and all other details. This advantage of being "firstest with the mostest" on the spot where automobiles are bought gives the sales finance companies nearly half of the domestic retail automobile financing business.

Auto Financing is Big Business

Now to John Doe—if the reader is not yet tired of his problems—the financing of his automobile is only a worrisome detail, a matter far less important than horsepower, or wheelbase, or flashing taillights. But it would be an error to visualize automobile installment credit as only a tiny tail attached to the big automobile manufacturing canine. Automobile financing *is* big business. Just to give two examples, automobile installment credit currently outstanding, about $15 billion, amounts to a whopping 35% of total consumer credit, both installment and non-installment.

And the largest sales finance organization, **General Motors Acceptance Corp.**, has total assets falling not too far short of those of parent General Motors (in whose balance sheet the financing subsidiary is not consolidated.)

It is obvious from the buying habits described that profitable new car financing operations are largely dependent upon a close relationship with automobile dealers. It would be particularly nice for any one of the large sales finance organizations to possess a captive market of affiliated dealers. This, however, is impossible—or at least illegal. The automobile manufacturers are strictly prohibited by the Federal Anti-Trust Laws from favoring any financing institutions, including their own.

Both **Ford** and **General Motors** have, in fact, been under prosecution by the government on this score, and Ford signed a consent decree as long ago as 1938 agreeing to abandon its surviving ties with Universal, its former child which had been adopted by C.I.T. The Anti-Trust Division also sought to force General Motors to spin off the Acceptance Corporation, but this effort was dropped in 1952 upon General Motor's assurance that its dealers would have complete freedom of choice in selecting their financing agencies. Under these circumstances a manufacturer - affiliated finance company certainly may not seek to influence its dealers in any direct way, and it would seem unwise for it even to initiate any rate decreases. Thus, General Motors Acceptance, dwarfing all other instalment finance institutions as it does, must nevertheless content itself with following the "established" rates.

But in spite of this enforcement of arm's-length bargaining between car dealers and finance companies, it can hardly be denied that the manufacturer-affiliated organizations, like GMAC or the proposed Ford subsidiary, must enjoy a strong intangible advantage with both dealers and customers. In any business where brand names are so strongly emphasized as in automobiles, company loyalty is likely to influence the purchaser all the way down the line. Between customer and dealer the latter is more apt to be dispassionate in his decision as to financing tie-in.

Contrasting Ford and GM Earnings

In the light of these conditions, what are Ford's objectives in reentering the auto finance field? While this question cannot be answered with certainty by anyone who was not at the directors' meetings where this decision was reached, we can weigh the same factors which the board must have considered. Automobile manufacturers narmally enjoy, and certainly hope for, a considerably higher return on capital invested than finance companies. Over the last five years 1954-58, General Motor's net income has averaged a generous 26% of net capital invested, although the other two majors have not done nearly as well. By contrast the finance companies, although they benefit from the leverage between the small amount of owned capital and the large amount of borrowed capital employed, are happy to earn 15% to 18% on their shareholders' equity. No successful automobile company can expect to boost its net by shifting a heavy portion of its capital from manufacturing to credit operations.

On the other hand, installment financing enjoys the decided advantage, which must be attractive to the motor companies just now, of very steady earnings. Obviously, the financing of new car purchases must share some of the *(Please turn to page 548)*

Finance Companies With Large Proportion of Automobile Business

	Total Receivables Outstanding —(Mil.)—	Automobile Earnings as % of Total	Estimated 1958 Net Earnings Per Share	Current Div.	Price Range 1958-59	Recent Price	Div. Yield
Associates Investment Co.	$ 824[1]	55%	$6.00	$2.60	96 -67	84	3.0%
C. I. T. Financial Corp.	1,871[2]	65	4.25	2.40	59⅞-44	49	4.8
Commercial Credit	1,400[2]	35	5.30	2.80	65 -45⅞	56	5.0
General Finance Corp.	149[1]	43	2.50	1.20	34½-19⅜	33	3.6
General Motors Acceptance Corp.	3,984[1]	98	3	3	—	3	—
Pacific Finance Corp.	371[1]	65	4.90	2.40	64½-40	56	4.2

1—As of Sept. 30, 1958.
2—As of June 30, 1958.
3—Wholly-owned subsidiary of Gen. Motors Corp.

Inside Washington

By "VERITAS"

PHILIPPINE independence evidently doesn't mean in the Islands what it connotes in the United States. When this country selected its own natal day, July 4, for the beginning of the new republic in the Pacific it was considered that the emancipation was complete. The President and Congress were so assured. Now it develops that the Filipino leaders want to be regarded still living as a possession of the United States for purposes of continued support in the manner to which they had become accustomed. They aren't asking; they are demanding. And arguing their case as a matter of right! For defense purposes the Philippines are important. As a case history in good government they leave much to be desired.

WASHINGTON SEES:

Rep. Charles Halleck who deposed former Speaker Joseph W. Martin as Minority Leader in the House of Representatives is staking his hopes of republican inroads into the democratic legislative program on the prospect of a coalition which would unite conservatives of both parties in a joint effort to keep costs down and balance the budget. Halleck has been singularly successful in this type of political maneuver in the past. He has dealt chiefly with Rep. Howard W. Smith of Virginia, a democrat who may be entitled to the badge "most conservative member of Congress" but hopes to win over a great many others.

One may speculate on what the reaction of Congress will be to the Eisenhower economy-balanced budget program but until votes are counted in a few trial run measures, no one can know whether the spenders are more numerous or only more articulate — or in which party they are to be found. The answer probably is that most Congressmen pall at the idea of another year of deficiency operation though some may feel politically obligated to vote for it. If rejection of reckless give-away can be credited (or blamed, as the case may be) to bi-partisan effort Halleck's coalition idea might provide the looked-for solution.

SELF-INTEREST on both sides dictates the wisdom of patching up injured feelings. But Manila cannot be selected out of all the world capitals and guaranteed safe passage through life. She has a long history of pleasant relations with this country — based about 100 per cent on what the United States has done for her, not the reverse. Carlos Romulo, Filipino Ambassador to the United Nations, is a man of great political ambitions, much of which has not been achieved. He has been a delegate to our Congress, a General in our army (largely for scouting purposes; he is not a military man). He has become chief critic of the U.S. He has retured to Manila. Temporarily, he hopes. Not necessarily so, however.

MILLIONS are spent annually by the Federal Government to maintain an army of public relations experts to keep the citizens informed on what Washington is doing, how tax money is being spent, and what the policy of government is with respect to its manifold activities. A tireless committee headed by Rep. John E. Moss of California, has developed that hiding official information away from critical eyes is a major enterprise of some offices. Many reforms have followed the Moss disclosures. Now the committee may be discontinued. Reason: None given.

BLUE NOTES: Republican Senator Norris Cotten has taken few words to forecast a two-year outlook: "This Congress bids fair to unbalance the budget, boost taxes, revive controls, knuckle to Labor; it will be free-wheeling, free-spending, and the Ship of State is on for a voyage of rock and roll. And (the democrats)." said Republican Cotton, "may well soar to another landslide victory. We can only put our trust in Providence — and Majority Leader Lyndon Johnson."

As We Go To Press

►Creation of a new spirit of togetherness with Latin American nations doesn't involve the exciting drama of competition for outer space or parrying in the cold war with communism but it is proving vastly more important and successful than this country's endeavors are in the other fields. In our preoccupation with Europe and Asia we had permitted our relationships with next door neighbors to deteriorate. Canada and the republics to the south of the Rio Grande had been permitted to drift away. Encouraged to do so, in fact. It would be avoidance of simple realities to say that the problems have been overcome or that amity among the nations of the Western Hemisphere has been restored. But the United States has taken the first steps and the changes have been all for the good.

►It is interesting to note that, in the case of Latin America, hard economics rather than international politics was at the core of the trouble, yet two of our most prominent politicians have been the instrument for rapprochement with the Latinos. Gov. Nelson Rockefeller's several years as director of the Inter-American cooperation office had come to personify the United States policy of economic encouragement. Vice President Richard Nixon by refusing to don the cloak of martyr after he was roughly treated during his good will mission proved we were after friends, not after trouble. His trip awakened heads of state in Latin America to the fact that cooperation is a two-way street and that, in the eyes of world capitals, they hadn't earned better treatment.

►In the politico-economic community of Washington, the work of Rockefeller and Nixon was being undone. While this government worried over the restoration of abundance and the better life on other continents and poured billions into the enterprise with little or no hope of monetary return, Latin America was rebuffed at the loan desk. Those countries to the south were disinterested in how much Uncle Sam force-fed into other areas, and didn't ask for in; what they wanted was the use of funds on a commercial basis with, perhaps, a little more leeway on the charge thereof and the terms of repayment. What they were getting was advice, lectures on the free enterprise system, do-it-yourself pamphlets.

►Announcement from Washington that the U.S. is ready to join in a new inter-American development bank with $850 million in credits to open the account, has had a rejuvenating effect on tired international relations. This marks a complete reversal of attitude. The United States had stood firmly against such an arrangement. The turnabout found Washington ready not only with financial aid but with a charter inviting other countries to join in a program modeled after the eminently successful World Bank. Giving concrete evidence of determination to make the new bank work, the Treasury has made $400 million available, one-half of this amount in cash, the other subject to call. Taking the practical approach to the problems of financing developed in studies by the Organization of American States, the new bank will provide two kinds of assistance: hard loans bearing bank interest rates and repayable in dollars; soft loans which may be repaid in the currency of the debtor country.

►The basis of United States-Canadian jangled nerves is much different. Canada is content to work out her own economic problems. Ottawa loses no opportunity to impress upon this country that her economy is sound and she proposes to keep it that way without foreign intervention. Especially without intervention from Washington. The United States would prefer that international relations there be restored to the historical basis, but isn't going to fret about it. Defense needs of the two countries are closely interlaced and mutuality in that respect is not suffering. Canada wants the American investment dollar but with no strings attached. In the area of import-export each country is in a position to do damage to the other. Each seems bent on keep-

ing wounds open, rather than healing; each talks of, but rarely imposes, new tariffs, new quotas. The strained feelings don't go far below the surface. If the urgency existed in the Dominion that pervades the Latin-American question, settlement would be prompt.

►Republican party leaders in their widely-publicized and acrimonious appraisal of causes of their crushing defeat at last November's polls have widened the breach between the White House and the party organization. Mr. Eisenhower has been abrupt and reproachful in his personal assessment of blame: he has told party men to wake up and get to work. Vice President Nixon caused sparks to fly when he amplified this by saying the GOP worked only two months in the 1958 campaign. Their answer was a peevish reminder that Eisenhower and Nixon were active only in the final two months of the campaign, but Congress members and precinct workers couldn't buck the tide of dissatisfaction in a year-around effort.

►The principal product of the "reappraisal and planning" meetings (besides the widening breach) was a storehouse of cliches — "fearless attack," "bury factionalism," "develop new candidate material," "militant partisanship." The party leaders did everything but "put their shoulders to the wheel, and their noses to the grindstone, while moving forever upward and onward." What the party seems to need is total examination to find its vulnerable points, then correct them. First and foremost, it must rip off the ""big business party" label. Neither party, fortunately, is exclusively that; each has made legislative contributions to a healthy economy, which cannot exist without attention to the problems of both management and labor. The labor record of the GOP in Congress is good, across-the-board. If there is truth in the report that some GOP financial agents have preferred the "big business" tag they may as well drop it: the party received precious little substance from that source in the 1958 campaign.

►While the GOP has been insisting upon spotlighting its weaknesses, the democrats have been working assiduously to quiet rumblings of distrust in the ranks of "professional" labor. From AFL-CIO headquarters came this opening salvo as the first month of the new session passed with little to show: "It will not be deemd Quixotic, one trusts, to suggest that a great many people who voted for the democrats last November would like more evidence that the democratic congressional leaders are planning things affirmatively and fewer proclamations about how responsible they intend to be, with the strong implication that this means nobody need worry lest they rock Pres. Eisenhower's boat."

►Labor's incipient rebellion is not tied to a single action, or lack thereof. Leaders are reminding that three decades have passed since Herbert Hoover went into the White House; that there has been 10 years of world depression in which this country shared the suffering, a great war, a tremendous expansion of population and national business activity that enriched the economy to a point not dreamed possible a generation ago. While gross product rose $100 billion since 1950 and is on its way to another $100 billion increase by next year, the program of social reform is stalled, protests AFL-CIO. There need be no timidity about the budget, with a half-trillion dollar economy just around the corner, fumed the labor press.

►In spite of the demands of organized labor, the democrats (to whom the complaint is addressed: "Mr. Eisenhower can be relied upon to supply all the reluctance to move"), signs continue that this is not to be a labor-controlled session of Congress. It is true that the demmies gathered under their wing many more seats than they hoped to get and sent many green freshmen to Washington, but it is equally true that the reins still are in the hands of the old-timers. These are the Rayburns, the Johnsons, the Byrds. They know the machinery of legislation and are determined to keep the balance sheet in good order to be submitted to the voters in 1960. That's when the big prize is up. With a reasonably good record of general popular appeal, the democrats feel they are "in."

►American history has emphasized through its pages the fact that voters are influenced by a variety of things. These can include peace, prosperity, personalities. They do not respond en masse to the call of party leaders and are as likely to rebel at a topheavy "labor record" as they are to a "big business" output. Wiser heads in the democratic ranks seem determined to present neither.

Concise and Sharp Analysis of...

MAJOR U. S. MARKETS ABROAD

By John E. Metcalf

OFFICIAL trade statistics now list more than 150 U.S. export markets ranging from Outer Mongolia to Mozambique. But two dozen countries buy 80% of our commercial exports, and six of these together take nearly half the total. One major market dwarfs all others in the volume of its purchases, and that is Canada, our good neighbor to the north.

These two dozen principal export markets may be conveniently divided into four groups:

► The four principal English speaking members of the British Commonwealth — Canada, Great Britain, South Africa, and Australia.

► Eight leading Latin American nations — Mexico, Venezuela, Cuba, Brazil, Argentina, Colombia, Peru, and Chile.

► Eight of the major trading countries of Continental Europe — West Germany, Italy, France, the Netherlands, Belgium, Switzerland, and Sweden, plus Spain.

► Four nations in Asia — Japan, India, the Philippines, and the Republic of Korea.

The general prospects for U.S. foreign trade in 1959 were examined in the preceding issue of this magazine. Encouraging signs for a pick-up in world trade were noted, and the prediction was made that U.S. exporters would top their 1958 sales by nearly $1 billion this year. In this issue we shall survey individual prospects in the most important of these export markets.

Canada

Canada's business recession seems to have passed. However, the upswing thus far lacks vigor and unemployment remains a problem. Last year's slowdown was inevitable in view of Canada's close links to the U.S. economy. The recession was held in check by a record level of government deficit spending and a spurt in home-building induced by the easy-money policy. As might be expected, these curative measures have heightened inflationary pressures.

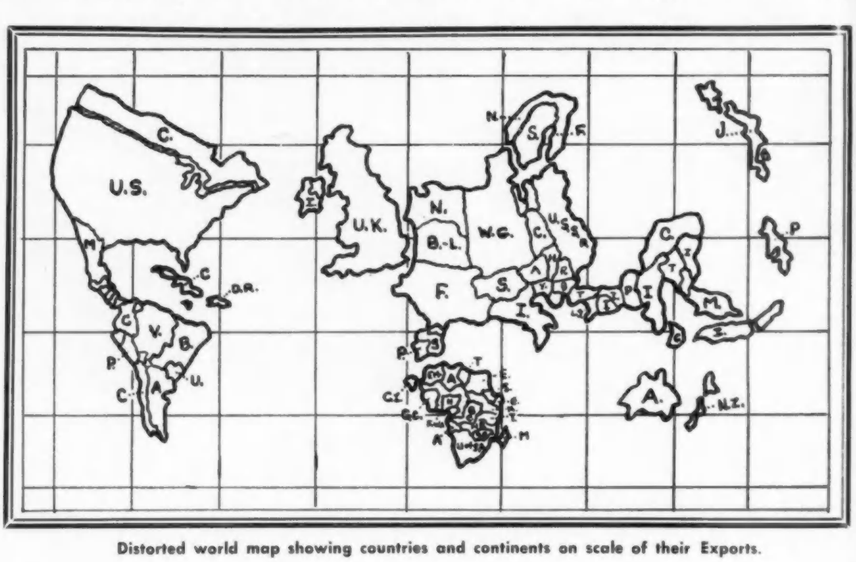
The 1959 outlook is for a modest improvement in the Canadian economy and some increase in purchases from the United States. Our sales to Canada have been a walloping $3½ to $4 billion annually in the past several years and cover a wide range.

The leading items are machinery and industrial equipment, automobiles and tractors, steelmill products, metal manufactures, chemicals, fuels, industrial materials, textiles, and specialty foods such as fruits and vegetables.

Great Britain

Despite some slowdown in internal activity last year due to the government's tight-money policy, 1958 was generally a good year for Britain. The terms of trade improved sharply owing to falling commodity import prices. With exports maintained at a high level, the trade deficit shrank and exchange reserves climbed by $1 billion. These favorable factors enabled the government to regain its freedom of action. Credit restrictions imposed in defense of the pound during the Suez crisis were relaxed gradually during 1958, and at year-end the government moved boldly to liberalize sterling convertibility. This step was in keeping with Britain's leading position in world trade and finance.

The business pick-up which has resulted from the easing of controls should be translated into increased imports from the U.S. this year. Our sales there may be close to the $1 billion mark in 1959. Britain is one of the chief buyers of American farm products — cotton, tobacco, foodgrains, fats & oils. It also buys from us a large volume of chemical and petroleum specialties, nonferrous metals, and some machinery.



Distorted world map showing countries and continents on scale of their Exports.

Union of South Africa

South Africa's almost uninterrupted postwar boom lost its momentum during the latter part of 1958, but some slowdown was inevitable. However, the economy is well supported by the growth and diversification of export industries that has taken place during the past decade, aided in large part by foreign investment. The important metal mining sector of the economy has probably reached a plateau and little additional advance is expected for several years.

It is likely that U.S. exporters will have difficulty maintaining their sales position in the South African market this year. Capital equipment and motor vehicles are the leading U.S. exports there now that South Africa has built up its own consumer goods industries.

Australia

Economic prospects for Australia this year show marked improvement. The poor harvest last season, due to drought, unfortunately coincided with a drop in world wool prices. Farm income was off by a third and export earnings from agricultural products and nonferrous metals declined. But good crop yields are expected this year and export prices have improved.

Australia's continued progress toward economic diversification has maintained imports from the United States in the $200 million range during the past five years. Despite the relatively small population, high income levels make this a profitable market. The recent easing of Australian currency restrictions may mean some increase in U.S. exports there this year. Our principal sales to Australia are cotton and tobacco, petroleum products, and machinery.

Mexico

Some uncertainty clouds the economic outlook in Mexico. There has been a slowdown in business activity, in part due to the U.S. recession. Floods impeded agriculture last year and export earnings from nonferrous metals were low. Inflationary pressures have mounted and a large trade deficit has caused a drain of gold and foreign exchange reserves. On the other hand, this year's farm crop may be the best in Mexico's history and an ending of the U.S. recession should stimulate business south of the border.

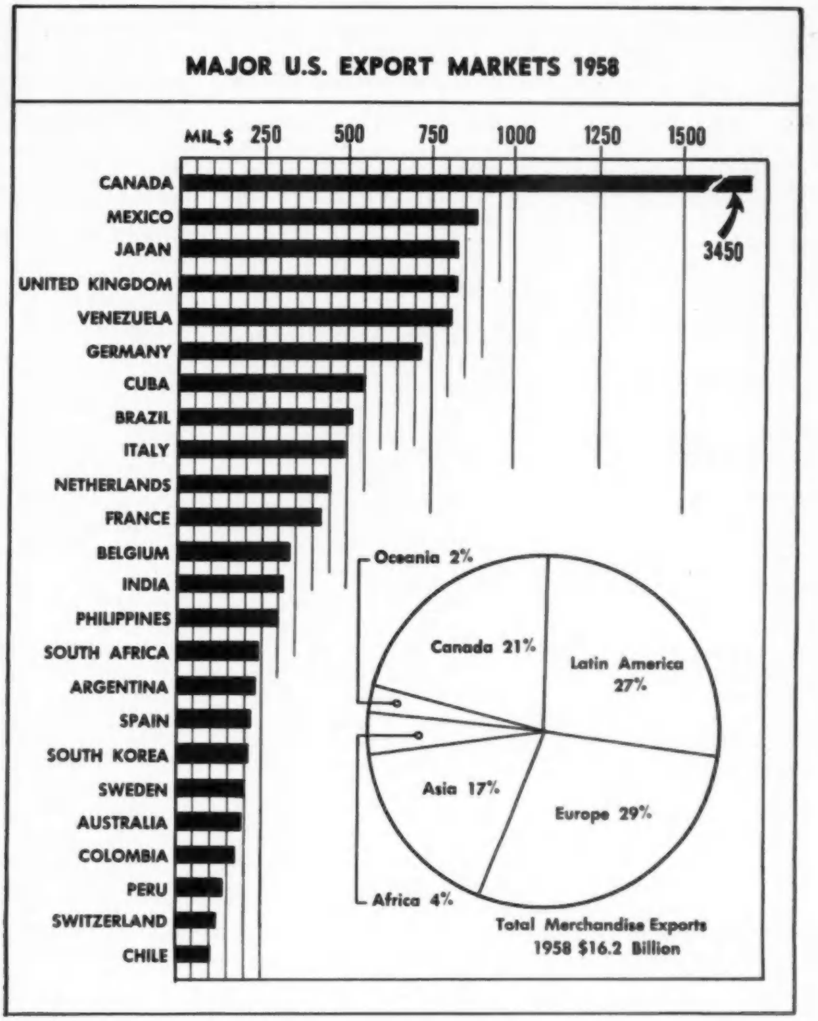
Mexico is one of the six leading U.S. export markets, now accounting for sales of close to $900 million a year. Since World War II it has experienced one of the most vigorous rates of growth in Latin America. Thus American businessmen follow events there closely. Right now attention is focused on the new government of President Lopez. The current weakness of the peso calls for resolute action since the period of normal seasonal pressure lies just ahead in the spring. Although the economic program of the new administration is not yet clear, President Lopez has indicated his intention to keep the economy dynamic.

Venezuela

Venezuela's abrupt action at the end of 1958 upping tax rates for large companies was a severe jolt to the oil industry. It could well slow the remarkable growth Venezuela has experienced during the postwar period, largely as a result of capital inflow from petroleum operations. On the other

hand, the foreign oil companies are rather deeply committed there, and Venezuela may still seem a safer bet than areas further away from home. The tax boost was motivated both by nationalistic sentiment and the depletion of government revenues as a result of the spending spree inherited from the ousted Perez Jimenez regime.

Venezuela's balance of payments was under pressure throughout 1958 and exchange reserves dropped by a third. As a result, imports had to be cut back, including purchases from the United States which declined by more than 20% last year from the record high of more than $1 billion in 1957. Chances are that some further drop will occur this year in U.S. exports to Venezuela of metal products, machinery, and vehicles.



Cuba

The Cuban economy was rather disrupted by the recent rebellion there. The transportation system is in bad shape, sugar milling has been delayed, and tourist income is off. Before the new government of Dr. Castro and President Urrutia attack the difficult problem of restoring the economy they must first reorganize and restaff the entire administrative machinery. Considerable vigor is now being applied to the task of rooting out the graft and corruption which sprung up under the Batista regime.

Business activity will probably continue at a somewhat slower pace this year, with adverse effect on U.S. exports in 1959. Cuba is our third largest market in Latin America. Despite political disturbances, however, the growth trend in Cuba is well established and continued economic progress is expected in the years ahead. Cuba is blessed with good soil and climate, ample natural resources, and a literate population. Large U.S. investment there has helped to diversify both industry and agriculture, thus strengthening the economy and making it less dependent on sugar.

Brazil

Despite chronic inflation and foreign payments difficulties, mounting external debt and domestic insolvency, the Brazilian economy keeps right on growing due to the dynamic mixture of abundant land, resources, and people. The current financial crisis is as bad as any in the postwar period, with the government committed to an expensive coffee support program as the world price for the brown bean continues to skid downward.

Brazilian industrial production set new records in 1958 —as did the cost of living. Imports from the United States were maintained at a high level due to Export-Import Bank financing, which on a cumulative basis now stands at $1 billion. U.S. sales to Brazil totalled more than $500 million last year (actually up 5% or so from 1957), with capital goods predominating. It is quite unlikely, however, that this level can be sustained in the current year in view of the depressed market outlook for coffee. Brazilian coffee prices have dropped by about 25% in the past 12 months, and coffee normally accounts for more than half of the nation's export earnings.

Argentina

Argentina's new president, Arturo Frondizi, has now firmly launched his country on the road to economic recovery after a nightmarish period of misguided policy. A new austerity program is being undertaken with massive foreign aid. Some $329 million was obtained at year-end from the U.S. government, the International Monetary Fund, and U.S. banks. Economic reforms include ending of multiple exchange rates, a free market for the peso, elimination of some subsidies, and a new deal for agriculture. It is hoped that these measures will

break the wage-price spiral responsible for Argentina's jet-propelled inflation.

Now, after years of unsuccessful effort to develop its own rich oil resources, Argentina is negotiating long-term agreements with the international oil companies which are expected to make the country self-sufficient in fuel by 1962. This alone will mean a $300 million reduction in the annual import bill, and it may even result in an exportable surplus. In addition, French, Swiss, and American private investors are planing to spend two or three hundred million dollars more on developing coal mining and producing electric power.

Argentina possesses some of the best crop and cattle land in the world. Under skillful management its farms and ranches once produced bountiful export surpluses of meat, wool, grains, and dairy products. But a decade of ill-conceived Peronist experiments in industrialization, controlled marketing, and artificial exchange rates was subsidized by the nation's agriculture, thus bringing virtual ruin to the countryside. The new reform measures should stimulate exports, but for the present there will be some drop in imports as Argentina moves to cut its trade deficit and live within its means.

West Germany

West Germany chalked up another record year in 1958 despite some soft spots in the economy. Exports continued the relentless advance of the past decade, with the result that last year's trade surplus was a robust $1.4 billion compared with about $1 billion in 1957. Germany's gold and foreign exchange reserves now stand at an impressive $6.3 billion, largest in the world except for the United States. There was a modest slowdown in industrial production at mid-year, but except for coal, steel, and textiles there was a strong pick-up at the close of 1958.

The outlook is for continued economic expansion this year, though at a slower pace than in the recent past. The automobile and appliance industries will lead the advance. Plant investment and construction activity have recently been spurred by lower interest rates. Although there will be some further drop in U.S. exports to Germany of coal and cotton this year, shipments of most other products should be maintained. Germany is one of our half dozen largest export markets. Its purchases from the United States are primarily semi-processed goods, raw materials, and foodstuffs.

Italy

After a slight recession during the earlier part of 1958, industrial production in Italy resumed its upward trend. The temporary drop in factory output was more than offset by a bumper harvest, so gross national product increased by 3½% last year. A decline in private investment was offset by stepped-up government spending on public works. Terms of trade improved considerably, with import prices reduced and exports maintained at a high level. Tourist earnings were at the record figure of some $450 million last year despite a slow start due to the Middle East war scare. Italy has entered 1959 with gold and foreign exchange reserves at an all time high well in excess of $2 billion.

Despite recurrent political instability in recent years, Italy has made considerable progress in strengthening its economy. The fall of Premier Fanfani's government last month was illustrative of the shifting currents in Italian political life. Some re-grouping of forces may be necessary to provide Italy with the firm leadership needed during the transitional decade of building the European Common Market. For U.S. businessmen, Italy's participation in the Common Market means a growing disadvantage, especially in sales of machinery and other capital goods.

France

France faces 1959 a transformed country! Under General De Gaulle, France has staked its future on a return to national greatness. The comfortable mediocrity of the Fourth Republic has been abandoned in favor of economic austerity and a determination to resume a place of leadership within the family of nations and the European community. Much will now depend on De Gaulle's ability to solve the vexing Algerian problem which has been a severe drain on French finances in recent years.

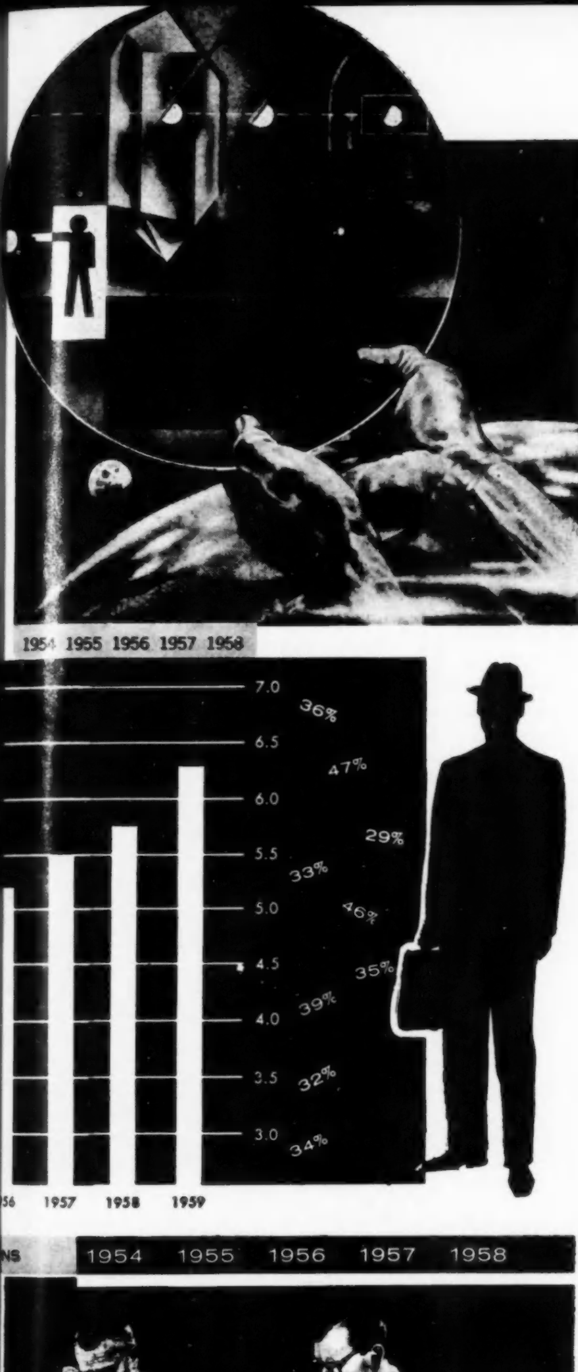
As elsewhere in Western Europe, industrial production in France slowed somewhat during 1958 but now shows signs of a pick-up. The 17% devaluation of the franc last December accomplished the important objective of adjusting French exports to the cost level of other Common Market countries. Despite the devaluation there has yet been no general tendency for internal prices to rise. Great encouragement is had from the rapid increase in gold and foreign exchange reserves during January, signifying a return of confidence in the franc. Despite liberalized currency convertibility, the present austerity program means that U.S. sales to France during 1959 are not likely to gain over last year when shipments totalled about $430 million.

Netherlands

The Netherlands, like most other Western European nations, benefited from improved terms of trade last year. As a result, gold and foreign exchange reserves have climbed by some 50% since the end of 1957 and are now at the strongest position in the postwar period. Last year's moderate business recession appears to have bottomed out and some expansion is expected during 1959. Conservative financial policy has made the guilder one of Europe's hardest currencies. The Dutch will have no difficulty buying all they want from the United States this year. However, American businessmen will be up against stiff price competition in trying to maintain exports to this market at the $500 million level of the past few years.

Belgium

Being even more dependent on foreign trade than its neighbors, Belgium is extremely sensitive to fluctuations in world demand. Last year's business slump caused a 10% drop in industrial output and serious unemployment. As elsewhere in Europe, the coal, steel, and textile industries have been hardest hit. The sound currency tradition is strong in Belgium, and thus the government *(Please turn to page 554)*



Companies where New Management Policies are Revitalizing Operations

►**Telling where new management policies have breathed new life into 10 old-established companies in various fields, previously dormant, and now moving into a new phase of growth.**

By Ward Gates

THE powerful urge to meet the demands of the new age has wrought many interesting transformations in the business world in the relatively short period since World War II.

Alertness, managerial skills and imagination have been required to keep up with the procession. Lack of aggressiveness has compelled many a corporate management to fall behind and surrender to more successful competitors. Inability to control manufacturing costs or to develop new products has compelled unprogressive companies to seek refuge in consolidation with larger and more capably managed concerns. Never before in business history has the pace been so swift and the mortality of laggards been so great. This condition has been accentuated in no small measure by the expansion of trade unions and by the competition among union leaders to gain more than their rivals in concessions from managements. The powerful and successful corporations have been able to meet this challenge, but smaller and weaker concerns have been forced to fall by the wayside.

This period has been a challenge to managerial ingenuity in adapting, and, sometimes, recasting corporate activities and in harnessing an enormous war time industrial capacity, already accelerated by technological advances, to peace time requirements. New industries have been built on scientific achievements and new products created by research and the demands for special metals, fuels, chemicals, etc. In fact, from 50% to 80% of the sales of some companies are made up of items developed within the past decade.

A revolution in retailing too, is taking place before our eyes, through the use of automatic machinery to offset the progressive wage inflation

that we are experiencing. Never before has the pattern of business growth been more kaleidoscopic.

Some of the small or middle-sized corporations of today will undoubtedly be the giants of tomorrow; others will probably fall behind in the competitive race, making it clear that the main reason for moving in one direction or the other will be the degree of managerial acumen. Already to be observed in the contemporary scene are corporate examples of irrepressible energy, of rapid adjustment to changing conditions, where new management policies have breathed new life into old established companies in various fields, where companies, previously dormant, are now moving into a new phase of growth.

American Express noteworthy as one of the few large-scale business undertakings still unincorporated, found itself abruptly bumped out of the express business thirty years ago, but was agile enough to transfer its long-accumulated good will as well as its financial resources into profitable new travel and banking ventures. Its prosperity in these activities has contrasted pleasingly with the continuing problems faced by Railway Express Agency, its successor in the transportation business. From a national, American Express has expanded into an international system, and its travelers' cheques, although widely imitated, clearly hold a vast lead over all competitors. But the company has not been content merely to grow with the travel market.

In 1954 President Ralph Reed organized a wholly-owned field warehousing subsidiary; a year ago he established with Hertz Corp. a jointly-owned foreign car rental service. Most recently, American Express has made news by its energetic entry into the credit card field. Although the Diners' Club and several smaller organizations pioneered in this development, it is really a logical outgrowth of the travelers' cheque idea, and American Express enjoys a long lead in the race to create a truly universal credit card. Besides its simple convenience to every traveler, the credit card offers a particular advantage in our expense account economy of aiding companies both in controlling business entertainment and travel and justifying such expenses to the tax collector. At around 70, American Express (unlisted) is certainly counting heavily upon future rewards from these enterprises, for increased profits in the future.

Another rather spectacular performer in a different field which has made the headlines recently is **Warner-Lambert Pharmaceutical Company,** whose directors recently recommended a 2-for-1 stock split. This company, which gained not a little publicity a few months ago when a merger with R. J. Reynolds Tobacco Company was under consideration, has experienced exceptional growth in manufacture and distribution of proprietary and ethical drugs as well as toiletries, cosmetics and sundries. Impressive progress has been attained not only by aggressive promotion and development of new products, but also by the consolidation route and by employment of talented executive personnel. From a low of about 14 or 15 little more than five years ago the stock has zoomed to around 100 in reflecting a three-fold sales increase and approximately a four-fold expansion of net income in the same period.

Aggressive promotional programs have contributed significantly to the growth in volume of proprietary items in both the former Warner-Hudnut concern and the Lambert Pharmaceutical which were consolidated a few years ago. New items have been brought to market to replace those which have fallen out of favor, such as home permanents and some cosmetics. Intensive promotion in overseas operations also has helped expand volume, thereby widening profit margins.

Net profit has jumped to a level of between $5 and $6 a share, as against $2 to less than $3 a share prior to the consolidation of the two principal entities. A comparatively generous dividend policy has proved a factor in popularizing the stock with the investing public. Further liberalization in payments is anticipated following consummation of the split.

A logical—perhaps too logical—candidate for merger with Warner-Lambert would be **Rexall Drug Company**. This long-established firm, originally organized as a kind of druggists' cooperative back in 1902, slumbered away for many years, and during the '30's was involved in the unpleasant bankruptcy of its affiliated Liggett stores. However, under the aegis of its aggressive president, Justin W. Dart, it has vigorously pruned its unprofitable stems, replacing them with new branches promising a richer fruit. Dart commenced his administration some years back by the drastic step of pulling up roots in Boston and moving the company's headquarters to Los Angeles; this relocation proved a symbol of a more active spirit to animate the company. Although still best known as a retail operation (the Liggett stores in the East, the Owl drug chain on the Pacific Coast), some units of which are shifting over into supermarkets, Rexall is also expanding its drug manufacturing activities. Products recently introduced include "Deaner," a brain-stimulant; "Disipal," for the relaxation of muscle strain, and drugs for the lowering of blood pressure. Although dividends are being paid at the conservative rate of only 50¢ a year, net income for 1958 expanded to an estimated $1.85 per share from $1.45 in 1957, and a further healthy gain is expected this year.

In the electronic field many outstanding readjustments have taken place in recent years to alter trends of individual companies. The distinct progress achieved by **International Telephone & Telegraph Corporation** in this field deserves more than a casual mention in a discussion such as this. Recognition of management's progress has taken place in the stock market with the result that shares have advanced to the point where it was decided a stock split would prove beneficial. Here the dynamic change may be attributed to success in scientific research in electronics having military applications for the most part. Penetration of the domestic household appliance field a dozen years or more ago proved disappointing.

Products brought to fruition in research are concerned chiefly with missile and aircraft electronic equipment, including ground control or airborne electronic guidance systems and a variety of devices used in navigational operations. The company played an important role in setting up the continental safety system, known as Distant Early Warning line of radar stations across the Canadian wilds. Another accomplishment is Tacan, an air

10 Companies Where New Management Policies Have Invigorated Earnings

	1956 Net Sales	1956 Net Earnings Per Share	1956 Div.	1957 Net Sales	1957 Net Earnings Per Share	1957 Div.	1958 Net Sales	1958 Net Earnings Per Share	Current Div. *	Price Range 1958-59	Recent Price	Div. Yield
American Express Co.	$ 47.9[4]	$2.88	$1.57½	$ 53.8[4]	$3.11	$1.85	(NA)	—	$2.00	72¾-31⅝	68	2.9%
Cleveland Elec. Illum.	111.4	2.60	1.60	118.4	2.64	1.60	117.8[10]	2.56[10]	1.60	55½-37⅜	48	3.3
International Tel. & Tel.[1]	544.8	1.96	.85[1]	638.6	1.57	.90	(NA)	$1.75[9]	1.00[2]	32⅝-14⅝[1]	30[1]	3.3
McDonnell Aircraft	186.2[5]	4.55[5]	.50[3]	335.2[5]	6.34[5]	.50[3]	442.4[5]	6.33[5]	1.00[3]	38⅝-22½	35	2.8
National Distillers & Chemical	543.1	2.04	1.00[3]	538.5	2.05	1.00[3]	524.3	1.76	1.00	32⅛-20⅝	30	3.3
Rexall Drug	155.6	1.35	.50	167.5	1.45	.50	(NA)	1.85[9]	.50	35⅞- 8⅛	33	1.5
Schenley Industries	404.1[6]	1.93[6]	1.00	469.9[6]	2.45[6]	1.00[3]	497.[6]	3.58[6]	.25[7]	48⅛-18½	38	.6[7]
Warner-Lambert Pharm.	137.7	4.50	2.00	157.8	5.43	2.37[3]	(NA)	6.00	3.00	99½-56	93	3.2
Western Union Telegraph	252.5	2.21	1.00	259.9	2.03	1.10	(NA)	1.87	1.20	34¾-15	33	3.6
Westinghouse Air Brake	214.6	2.86	1.20	236.9	2.89	1.20	206.0[9]	2.05[9]	1.20	35½-17⅞	32	3.7

*—Based on latest dividend rate.
NA—Not available.
1—Adjusted for 2 for 1 stock split.
2—Co. plans to raise div. on new stock to $0.25 quar. per share
3—Plus stock.
4—Gross operating earnings.
5—Years ending June 30.
6—Years ending August 31.
7—Co. has declared $0.25 cash div. for the 1st quar. and 5% stock for each of the next 3 quarters until 8/10/59.
8—2 for 1 stock split, subject to stockholders approval 5/12/59. Co. then plans $0.37½ quar. div. on new stock.
9—Estimated.
10—Year ending Sept. 30.

navigation system used primarily in directing movement of military planes.

Revenues are estimated to have reached an all-time high last year not far short of $700 million and are expected to continue their upward trend for some time to come. Net profit may have approximated $1.75 a share on the split stock in 1958, compared with $1.57 for the preceeding year, and optimists are counting on even higher figures as volume expands. Dividends have been edging higher each year almost in recognition of progress.

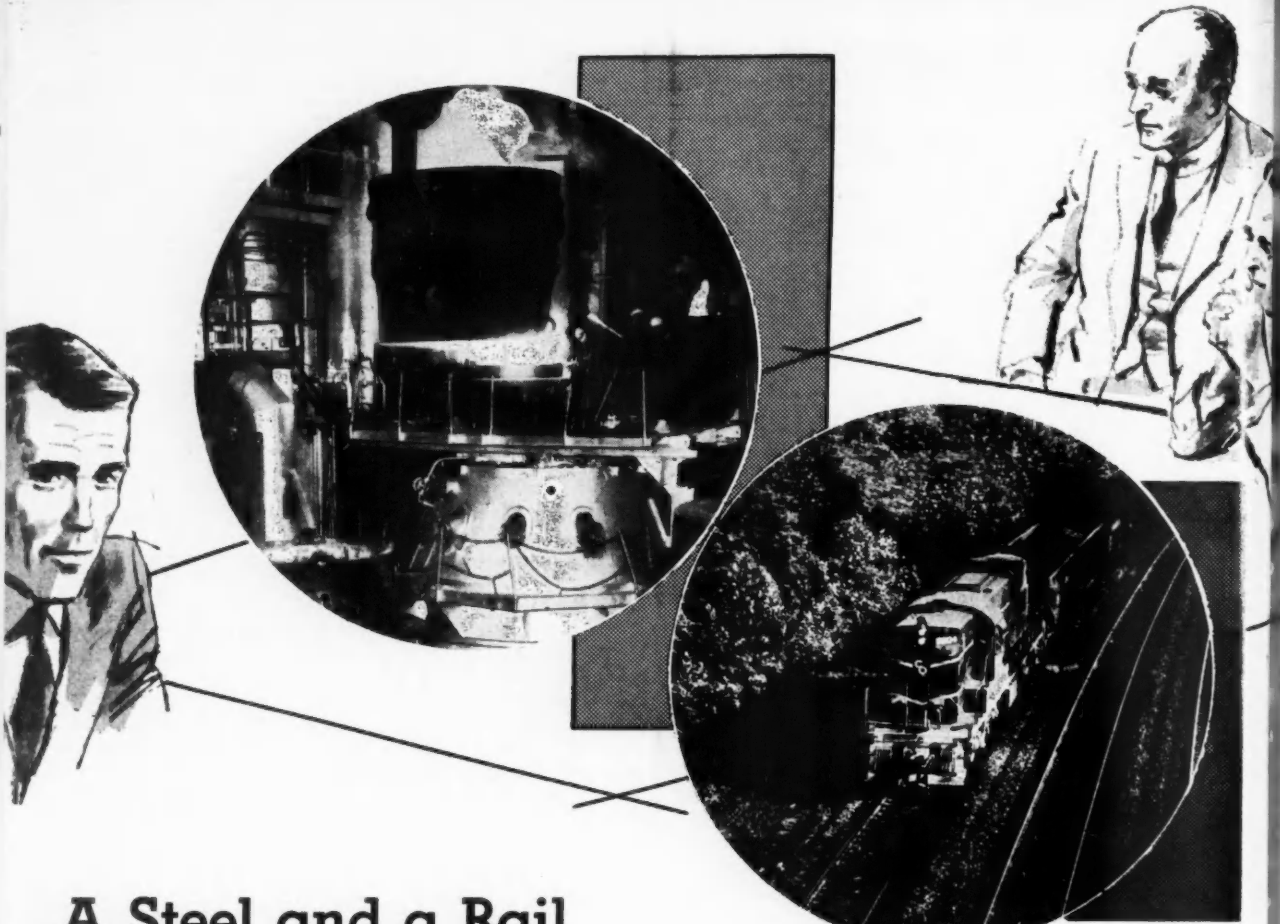
National Distillers' progress was signalized in a concrete way two years ago, when "and Chemical" was added to its name; as sales of the chemical division (contributing 38% of operating profit in 1957) seem likely shortly to exceed those of the beverage division, perhaps the order of these words should soon be reversed. The momentum the liquor companies received from Repeal carried them happily through World War II, but since 1945 the growth rate of the distillers has been considerably slower that that of the general economy. This has suggested to National's President John Bierwirth, at least, an active search for new more profitable ventures. Jointly with Panhandle Eastern Pipe Line, Bierwirth established back in 1951 the National Petro-Chemicals Corporation; this unit, one of the country's principal manufacturers of polyethylene plastic, became a wholly owned subsidiary a year ago. The U. S. Industrial Chemicals division produces industrial ethyl alcohol and a variety of other heavy chemicals, while the one-third owned Mallory-Sharon Metals recently commenced the production of the still unfamiliar metals titanium and zirconium. Other "feelers" include research in a nuclear reactor project and in rocket and jet engine fuels.

Long-term investors in this company have undoubtedly been disappointed by the relatively poor earnings performance since 1951, which made even the regularly maintained $1 dividend look shaky at times. Now, however, the outlook seems clearly improved, even though 1958 earnings may have dropped a trifle below the $2.05 for 1957.

Although not altogether deaf to the siren-call of diversification, **Schenley** has stuck much closer to home base than National, and is seeking solution of its problems within its own industry. Instead of spending his time exploring possible mergers, its chairman-president, Lewis S. Rosenstiel, has devoted a major part of his energies to fighting for the repeal of the 8-year force-out on distilled spirits, and the passage of this bill by Congress last August was very largely a personal victory for Rosenstiel. The new law, which relieves the distillers of the obligation of removing their whiskies from bond and dumping them upon the market after eight years, will be particularly beneficial to Schenley, which built up huge stocks in mistaken anticipation of a shortage at the time of the Korean War. Not only will the heavy tax be avoided, but these spirits will grow in values as they age. Rosenstiel, denying that the new law can be in any way interpreted, as a "windfall," is going on to new crusades in behalf of his industry.

Schenley last year withdrew from the brewing busisiness, believing that larger brewer (Pabst) could operate its former Blatz subsidiary more economically. It does, however, manufacture (through Schen-Labs) a line of ethical drugs, of which the most recent noteworthy discovery was *Neutrapen*, for counteracting penicillin reactions; and (through Park & Tilford) high-quality toiletries. Nevertheless, it is clear that the present management visualizes the future for this company as within the liquor industry. The dividend rate here has also remained unchanged at $1 for half a decade, but fiscal 1958 witnessed a sharp earnings recovery to $3.58 a share, upon which the current price represents a low multiple of only about eleven.

Management's determination several years ago to minimize dependence on the cyclical railroad equipment market spurred **Westinghouse Air Brake** into an expansion and diversification program that has borne fruit. The first move was acquisition of the Le Tourneau Company's earthmoving equipment facilities and formation of Le Tourneau-Westinghouse to broaden operations in the highway construction field as a supplementary activity. Expansion later took the company into making compressors, drills, etc., for the mining industry through the Le Roi division. *(Please turn to page 554)*



A Steel and a Rail
That have outperformed their fields. .
▸ UNITED STATES STEEL
▸ CHESAPEAKE & OHIO

WE SELECTED these companies for special analysis because of the splendid earnings picture they exhibited so forcefully in 1958, when, unlike many other companies, both demonstrated they could make money under adverse circumstances. Each is well managed, has an efficient and growing organization, with a good history and excellent prospects, — and both are in a position to show a continuation of their demonstrated earnings record.

While many a smaller organization is a comptroller's nightmare, these two giants are internally sound while remaining flexible in their approach to operations. Large capital expenditures have reduced operating costs, thus widening profit margins, and each company continues to broaden its earnings base.

Chesapeake & Ohio and U. S. Steel are basic and integral members of this country's industrial community. Steel is, and probably will continue to be, one of the most important products we produce; Chessy is the top Eastern freight carrier, transporting coal for the steel industry and distributes products in one of the country's prime markets.

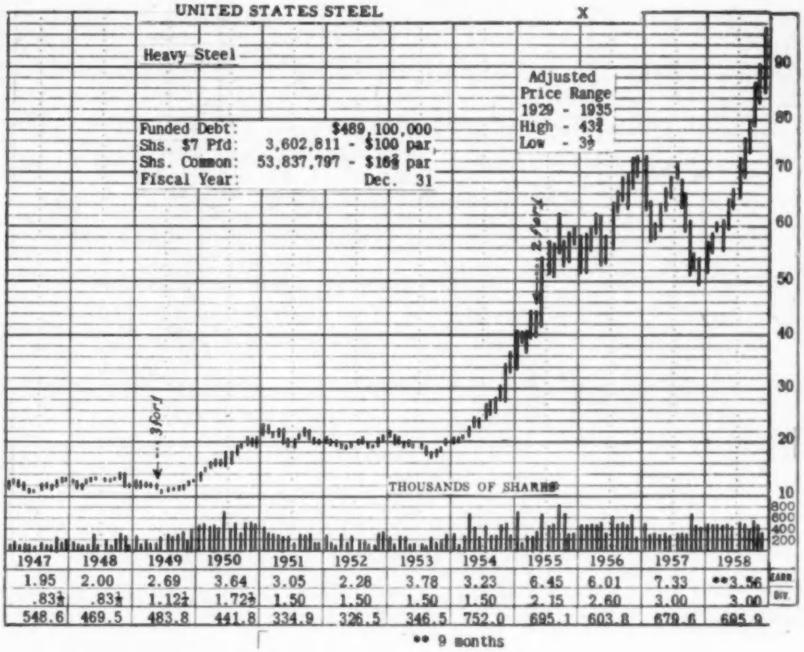
Each company is appraised by a specialist in the field.

Imposing Record of U.S. Steel

by Jonathan Walcott

U.S. Steel's vast network of numerous and diverse industrial activities proved itself, in 1958, to be a well integrated and efficient operation. In a year which saw the company operate at an average rate of only 64% of rated capacity, earnings of $5.13 demonstrated that Big X can sustain its earning power in the face of curtailed demand. The secret of this strong earning power lies partly in the beneficial effects the company's $4 billion postwar capital improvements program has had on profit margins and partly in the broad industrial base. The top-

flight management deserves a full share of credit for its foresighted and able direction of operations.



From Pig To The Moon

Overall activities of this mighty corporation include steel production and fabricating, mining, transportation, natural gas, cement, fertilizers, and a world-wide sales organization. This scope is impressive, but so is the size of the individual operations. *Universal Atlas Cement,* a subsidiary, is the *country's largest cement company* with an annual capacity of about 32.5 million barrels, or 12% of the nation's capacity.

Big Steel *produces virtually all* of its *own iron ore* and *limestone* requirements, over *half its coal needs,* and a portion of the manganese required.

The company *operates its own fleet of steamships and barges, several railroads,* and through the American Bridge Division fabricates and erects bridges, as well as tankage installations. Operations of the *Consolidated Western Steel Division have played an important role in the blast-off of the missile age.* This Division has planned and constructed missile handling and launching facilities at Cape Canaveral, and has developed a half-dozen new alloys for use in the "birds" themselves.

Steel Production

Towering above this base, however, and emerging from it, are the steel operations. The principal steel products are ingots, slabs, structural shapes, rails and accessories, tubing, wire, sheets and strips, as well as armor plate and other ordnance items, pig iron and concrete reinforcement bars. The types of steel run from carbon to special alloys. From its position as one of the industry's more efficient and better integrated producers, U.S. Steel with an estimated 1959 total capacity of 41.9 million tons should continue to command about 28.4% of total projected industry capacity of 146 million tons. It is well known that actual production seldom approaches full capacity. This was demonstrated with emphasis during the general business recession in 1958 when industry production was only 85 million tons or about 60% of 1958's rated total capacity of 140.7 million tons.

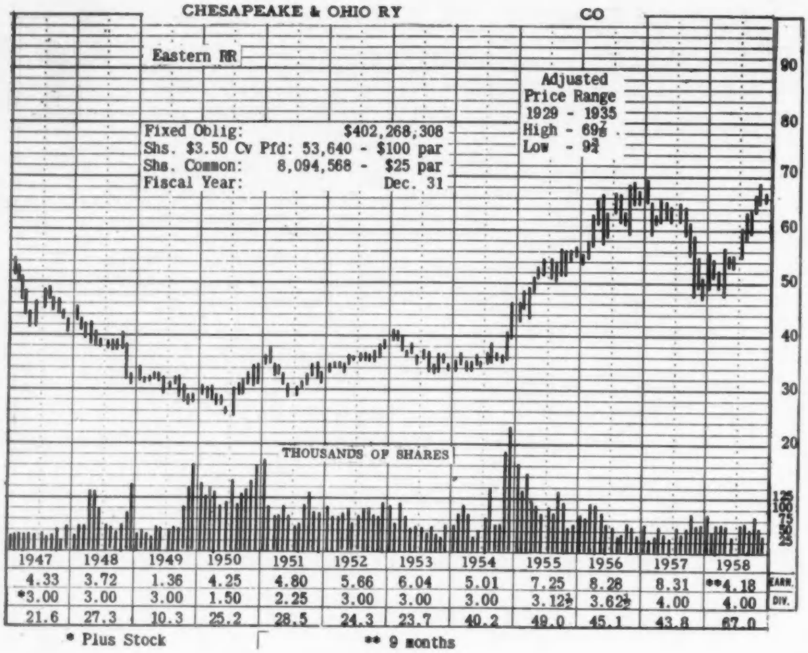
Profits in '59

To a very great extent Big Steel's earnings in the current year will hinge on overall industry developments. Basically the picture is much brighter now than it was a year ago. The upturn in the economy presages greater overall steel production, perhaps in the neighborhood of 110 million tons, or an in-

U. S. Steel's Long-Term Operating and Earnings Record

	Net Sales & Other Revenue (millions)	Depreciation & Depletion (millions)	Income Taxes (millions)	Operating Income (millions)	Operating Margin	Net Income —(mil)—	Net Profit Margin	Net Earnings Per Share	Div. Per Share	Percent Earned on Invested Capital	Price Range 1958-59
1958	$3,472.4	$204.8	$286.0	$598.7	17.2%	$301.3	8.6%	$5.13	$3.00	—	99⅞-51⅜(1)
1957	4,378.2	160.2	406.0	813.2	18.5	419.4	9.5	7.33	3.00	14.0	73½-48¼
1956	4,198.8	137.3	331.0	670.5	16.0	348.1	8.3	6.01	2.60	12.5	73¾-51⅜
1955	4,079.7	137.4	366.0	742.9	18.2	370.1	9.0	6.45	2.57	14.3	62¼-40⅛
1954	3,241.3	119.0	190.0	389.7	12.0	195.4	6.0	3.23	1.50	8.3	37¼-19½
1953	3,853.0	131.4	323.0	548.5	14.2	222.0	5.7	3.77	1.50	9.8	22¼-16¾
1952	3,131.7	130.7	117.0	256.7	8.2	143.6	4.5	2.27	1.50	6.7	21⅛-18½
1951	3,509.7	149.2	398.0	577.2	16.4	184.3	5.2	3.05	1.50	8.8	23⅞-18¾
1950	2,947.3	143.9	234.0	445.1	15.1	215.4	7.3	3.64	1.71	10.6	21¼-12⅞
1949	2,293.2	119.6	126.0	282.5	12.3	165.9	7.2	2.69	1.12	8.6	13⅜-10⅛
10-Yr. Aver. 1949-58	$3,510.5	$143.3	$277.7	$532.5	14.8%	$256.5	7.1%	$4.35	$2.00	9.3%	99⅞-10⅛

1—To January 30, 1959.



steel market to any very large extent. Although imports have risen in recent years, industry sources report that foreign producers are losing their cost advantage, which could result in a change in this picture.

Pricing is a perennial problem in the steel industry and while the overall price structure is improved in recent years, rising costs continue to plague the producers. There is great resistance to price increases, but if wage costs are going to continue to spiral, as seems probable, increases will have to come eventually, for operating economics and efficiency can be carried only so far.

There are, however, two danger spots in the generally favorable picture, and they apply equally to all the major producers. The first is that automobile production, which normally accounts for about 22% of finished steel consumption, appears spotty at present and earlier estimates of a 5½ to 6 million car year should probably be adjusted downwards. Additional production will probably hinge on unpredictable factors including public response to the new small cars which the Big Three will introduce later this year. Perhaps balancing this somewhat less enthusiastic outlook is the increasing demand for construction steel. The other major cloud is of course the continued aggressiveness of labor. When industry negotiators meet with union representatives in New York commencing May 18, the steel companies could be faced with excessive labor demands and prospects of a costly strike if agreement is not reached when current contracts expire June 30th. A part of the recent strong upturn in steel orders would seem to reflect to a considerable degree strike-fear inventory buying.

(Please turn to page 552)

crease of 35% over last year. Profit margins for the industry should expand substantially, reflecting an improved and more realistic price structure, the leverage of higher operating rates, and the beneficial aspects of modernization programs.

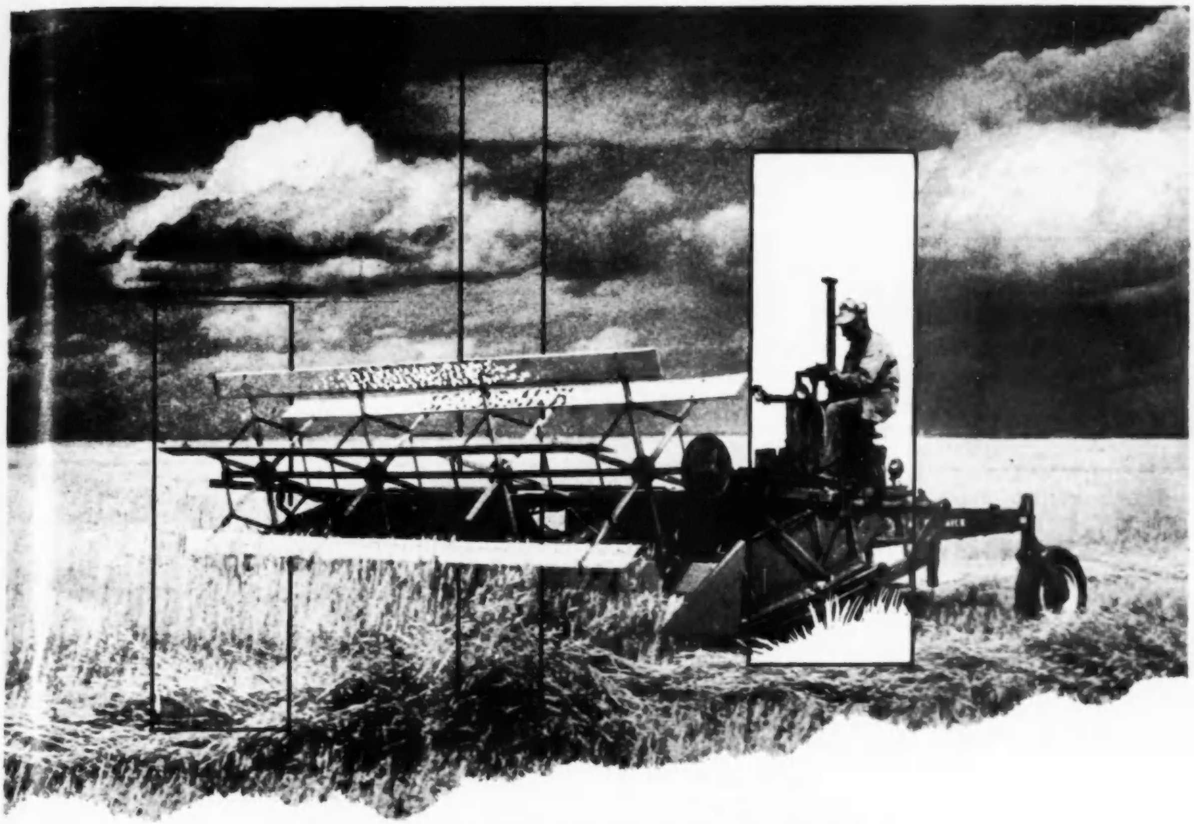
These benefits should accrue with special emphasis to U.S. Steel with its steadily increasing operating efficiency and commanding industry position. Barring lengthy strikes, a possibility which will be discussed shortly, the industry is expected to operate this year at 70%-75% of capacity. Although shipments will not reach the 1955 level, earnings of the steel producers could show considerable improvement. Certainly at the present time orders are pouring in and show no immediate sign of slackening off.

Foreign competition, represented by imports of around 2 million tons annually, is mainly in the form of specialty steels and does not affect the domestic

C. & O.'s Long-Term Operating and Earnings Record[1]

	Total Operating Revenues	Income Taxes (millions)	Total Operating Expense	Operating Ratio %	Gross Income	Total Fixed Charges (millions)	Net Income	Net Earnings Per Share	Div. Per Share	Price Range High Low
1958	$355.7	$16.0	$255.0	71.7%	$67.1	$15.5	$51.7	$6.36	$4.00	73 -47¾(1)
1957	432.3	30.3	299.9	69.3	82.5	13.9	67.5	8.33	4.00	69⅞-46¼
1956	418.7	37.1	284.4	67.9	79.6	12.5	66.7	8.28	3.62½	69¼-53¼
1955	380.2	32.8	258.8	68.0	70.9	12.3	57.9	7.25	3.12½	56¼-42½
1954	304.5	9.7	225.4	74.0	54.1	13.0	39.9	5.01	3.00	46⅛-33½
1953	344.0	19.5	248.5	72.2	64.4	13.3	48.0	6.05	3.00	41⅝-32¾
1952	355.6	27.8	253.2	71.1	58.6	12.8	45.0	5.66	3.00	39⅝-33½
1951	368.1	39.8	261.2	70.9	50.6	11.6	38.1	4.80	2.25	38¼-28½
1950	318.6	34.0	221.0	68.0	47.8	12.0	33.9	4.25	1.50	35¼-25
1949	273.9	11.1	219.3	74.0	26.2	11.6	11.3	1.36	3.00	34¾-27
10-Yr. Aver. 1949-58	$355.1	$25.8	$252.6	70.7%	$60.1	$12.8	$46.0	$5.73	$3.05	73 -25

[1]—To January 30, 1959.



FARM EQUIPMENTS WITH INTERESTING 1959 OUTLOOK —and those dragging

- **A realistic appraisal of farm income and sales for 1959-60**
- **Where foreign markets are being developed through branch plants . . . where profits can run and losses be charged off**
- **Extent of diversification by individual companies**
- **Changes ahead for farm subsidy program**
- **Current earnings-dividend position and outlook**

By R. C. Erlingsen

IT IS THE fairly universal opinion in economic and financial circles that 1959 should be a good year for the major manufacturers of farm equipment — because farm net income rose 20% to an estimated $13.8 billion in 1958 from the previous year, reaching its highest level since 1953.

Yet that does not necessarily follow. The economies recommended by the Administration for the year ahead may deter farmers from putting acreage under cultivation in the light of the existing surpluses. Besides, the size of our farms have grown enormously, and there has been plenty of money available for the most modern type of equipment, contrary to the condition that existed when there were so many small units operating on a marginal or modestly profitable basis.

From the investment standpoint, the market prices of the leading shares have already gone a good deal of the way toward discounting the improvement to be expected from last year's bumper results, even though current farm income is currently estimated at a 9% gain. And we must also allow for the fact that diversification or products by the farm equipment makers in recent years has been a consideration in the price rise.

Much discussion has been devoted to the longer range agricultural problems posed to the nation in the face of population explosion and dwindling farm acreage per capita, as land is preempted by highway needs and suburban expansion. The Department of Agriculture predicted in late 1956 a 32% increase in population by 1975 over the 1951-53 average, requiring a 45% greater livestock production and 25% more food crops. However, at best only 25,000,000 additional acres of cropland is expected to be taken under cultivation, necessitating

Leading Farm Equipment Companies

	Earnings Per Share			Dividends Per Share			Recent	Div.	Price Range
	1956	1957	1958	1956	1957	1958 *	Price	Yield	1957-58
Allis-Chalmers Mfg.	$2.42	$2.11	$2.05[1]	$2.00	$2.00	$1.00	28	3.5%	30⅛-22⅛
Case (J. I.) Co.	d .72	.09	1.12	—	—	—	25	—	25⅞-14¼
Caterpillar Tractor	6.08	4.32	3.50[1]	1.95	2.40	2.40	86	2.7	92⅞-55⅛
Deere & Co.	2.67	3.96	6.06	1.75	1.62½	2.00	53	3.7	55⅜-27⅜
International Harvester	3.16	2.88	2.69	2.00	2.00	2.00	39	5.1	44 -27
Massey-Ferguson Ltd.	.22	d .61	—	.50	.40	.40	13	3.0	13⅞- 6
Minneapolis-Moline Co.	.16	d5.72	d2.09	—	—	—	19	—	20¼- 7⅝
Myers (F. E.) & Bros. Co.	5.27	4.64	4.11	3.00	2.80	2.40	48	5.0	50¾-38
Oliver Corp.	.76	.13	.25[1]	.70	.60	.60	16	3.7	16½- 7½

d—Deficit.
*—Based on latest div. rate.
1—Estimated.

an increase in the average yield per acre of 27%.

There is just one way to accomplish this productivity gain—increased mechanization. Taking into account expected declines in the farm labor force, one leading economist has projected the following machinery needs based on 100 in use in 1955; 130 by 1960, 175 by 1965, 220 by 1970, and 270 by 1975. It is difficult to escape the conclusion that the farm machinery manufacturers' long term sales trend is likely to be favorably.

Admittedly, this is peering too far into the future for consideration of potential investment in farm equipment shares, but a similarly optimistic vista confronts the industry for the period closer at hand. Table I presents four of the more salient statistical indicators which graphically demonstrate what has been and is continuing to happen down on the farm. All point up the need for greater mechanization, and not 10-20 years from now.

Table I — Selected Farm Indicators

Year	No. Farms*	Aver. Size**	Farm Population*	Farm Wages***
1957	N.A.	N.A.	20.6 Est.	129.4
1954	4.8	242	21.9	117.2
1950	5.4	215	25.1	99.5
1945	5.9	195	25.3	84.6
1940	6.1	174	30.5	30.3

* In millions ** Acres *** 1947-49-100

It is readily apparent that farmers are faced with a genuine need for time, labor, and money-saving machines. Regardless of demand, however, the primary determinant of machinery sales is farm income — the farmers ability to pay.

Agriculture's Place in the Economy

Farming is an important fixture in the economy, accounting for over $35 billion gross income yearly. In the past, it has experienced roughly the same ups and downs as the rest of the economy, but its performance in recession 1957-58 was a most heartening one. The farm community's ability to withstand the inroads that the recession made on most incomes points up the essentially inelastic demand for food products and leads one to believe that cyclical swings in the future will probably be less severe for agriculture. This is due to high consumer purchasing power on our well maintained "middle" class living standard, supported in time of recession by unemployment pay and merits.

Also, certain factors which could be termed "non-recurring" played an important part in the 20% rise in net farm income for 1958 and in their absence this year, there will undoubtedly be some decline in farm income. These factors were weather (both good and bad), livestock conditions, the consumers' willingness to spend more during the recession, and increased government outlays for price support and soil bank programs.

Weather is, of course, the great unpredictable. Freezes in the south in the 1957-58 winter coupled with the inelastic demand for crops drastically reduced in size, forced price increases greater proportionally than the loss of quantity. The price even now of frozen orange juice concentrate vividly substantiates this. On the other hand, good weather conditions in the form of abundant rain-fall prevailing in the grain belt produced record crops with a reduced need for costly fertilzers.

Despite the unusual set of circumstances attending last year's farmer, the Department of Agriculture foresees only a 5% drop in farm income this year, which would make it the second best year of the past five.

Buying Habits Changing

Farmers buying habits of machinery have changed in recent years. It is largely a case of sound economics, and attention is again directed to Table I. Modern scientific farming is not possible without the aid of modern machinery and rapidly rising farm wages, and the trend to larger farms has been an added spur to machinery use on the farm.

In the immediate post-war years, farmers spent an average of only 6½% of their income on machinery. In the past decade, these expenditures have about doubled that proportion. Should this pattern persist, domestic farm machinery industry sales could easily return to the peak levels recorded in 1951.

Replacement and Obsolescence

The normal life of farm equipment is thought to be anywhere from seven years to well over ten, and many of the tractors purchased in the record 1947-53 period have reached replacement age, while the

Comprehensive Statistics Comparing the Position of Leading Farm Equipment Companies

Figures are in millions, except where otherwise stated.	J. I. Case Co.	Deere & Co.	International Harvester	Minneapolis — Moline Co.	Myers (F. E.) & Bros. Co.	Oliver Corp.
CAPITALIZATION:						
Long Term Debt (Stated Value)	$ 43.2	$ 117.1	$ 100.0	$ 15.2	—	$ 12.2
Preferred Stocks (Stated Value)	$ 17.0	—	$ 81.6	$ 3.0	—	$ 7.5
No. of Common Shares Outstanding (000)	2,818	6,700	13,875	910	198	2.096
Capitalization	$ 95.5	$ 123.8	$ 636.6	$ 19.1	$ 1.0	$ 38.4
Total Surplus	$ 59.1	$ 307.2	$ 146.2	$ 29.8	$ 9.3	$ 38.0
INCOME ACCOUNT: Fiscal Year Ended	10/31/58	10/31/58	10/31/58	10/31/58	9/30/58	10/31/58
Net Sales	$ 177.8	$ 472.6	$1,098.3	$ 53.6	$12.2	$113.3
Deprec., Depletion, Amort., etc.	$ 4.7	$ 13.4	$ 38.9	$ 1.7	$ .3	$ 3.5
Income Taxes	$ 2.6	$ 52.5	$ 30.5	—	$ .8	$ 1.8
Interest Charges, etc.	$ 6.0	$ 6.1	$ 3.5	$ 1.7	—	$ 1.5
Balance for Common	$ 3.1	$ 40.6	$ 37.2	—	$ .8	$ 1.3
Operating Margin	6.4%	19.5%	6.6%	.3%	13.3%	3.5%
Net Profit Margin	2.4%	8.9%	3.9%	—	6.6%	1.4%
Percent Earned on Invested Capital	3.8%	13.4%	5.4%	—	7.9%	2.1%
Earned Per Common Share (*)	1.12	$ 6.06	$ 2.69	$(d)2.09	$ 4.11	$ 0.63
BALANCE SHEET: Fiscal Year Ended	10/31/58	10/31/58	10/31/58	10/31/58	9/30/58	10/31/58
Cash and Marketable Securities	$ 26.2	$ 13.4	$ 152.1	$ 4.8	$ 2.7	$ 8.7
Inventories, Net	$ 42.6	$ 114.3	$ 321.2	$ 21.3	$ 2.6	$ 42.5
Receivables, Net	$ 37.9	$ 300.1	$ 59.5	$ 21.3	$ 2.3	$ 41.5
Current Assets	$ 131.5	$ 427.9	$ 554.4	$ 47.5	$ 7.9	$ 94.9
Current Liabilities	$ 66.1	$ 98.1	$ 142.7	$ 10.0	$ 1.5	$ 29.3
Working Capital	$ 65.4	$ 329.8	$ 411.7	$ 37.5	$ 6.4	$ 65.6
Current Ratio (C.A. to C.L.)	2.0	4.3	3.8	4.7	5.0	3.2
Fixed Assets, Net	$ 38.4	$ 90.7	$ 330.3	$ 11.00	$ 2.7	$ 22.9
Total Assets	$ 222.1	$ 547.5	$1,025.7	$ 59.0	$11.9	$119.0
Cash Assets Per Share	$ 9.30	$ 2.01	$ 10.96	$ 5.28	$14.15	$ 4.17
Inventories as Percent of Sales	23.8%	24.1%	29.2%	39.9%	21.5%	37.4%
Inventories as % of Current Assets	32.4%	26.7%	57.9%	45.2%	33.2%	44.7%

(d)—Deficit.

rapid technological advances made by the manufacturers of late have hastened obsolescence. Implements which were adequate ten years ago no longer are up to the job facing the farmer. Where two-row plows, planters, harrows and cultivators were widely used only five years ago, four-row equipment has become commonplace and even six-row have already been successfully introduced. The greater horsepower required to pull such gear has fostered a need for ever more powerful tractors.

Tractors account for over half of the total value of farm machinery shipments. About a third are believed to be of pre-1945 manufacture, while only about 60% of farms are estimated to be tractor-equipped. These unquestionably are the big ones. During the past few years, the farmers have been able to make do with what they had, but with greater cash income and more liberal credit policies enables them to purchase equipment. The Department of Agriculture estimates annual replacement demand will exceed 300,000 units by 1960, greater than shipments in any of the years 1955-57.

Tractor attachments such as harvesting machinery are also nearing replacement age. Precise data concerning useful life are not available, but it is believed to be around 10-12 years, so that machinery bought in the peak 1947-51 years will soon be requiring replacement.

Role of Federal Government

Agricultural price support legislation has been in effect since the close of World War II. The government's payments to the farmers have probably been instrumental in turning losses into profits for many. The future role and form of federal government support programs are a subject for endless debate in Congress, but even at this writing, the President has proposed major changes in price support philosophies. It is naturally beyond the scope of this article to attempt even a rash guess as to the government's future role, but there have already been changes in the recent pattern.

Corn farmers, in a special referendum last November, voted to remove acreage restrictions in favor of lower price supports. The net effect of a freer market on the corn farmers' income cannot be appraised at this point, but if greater acreage goes into cultivation, a definite need for more equipment is indicated.

Parts and Repairs

This phase of the farm equipment manufacturers' business should become increasingly important in the years ahead. Farm machinery is subject to hard usage, especially much of *(Please turn to page 545)*

WHICH TOBACCO IN 1959?

By Walter Untermeyer Jr.

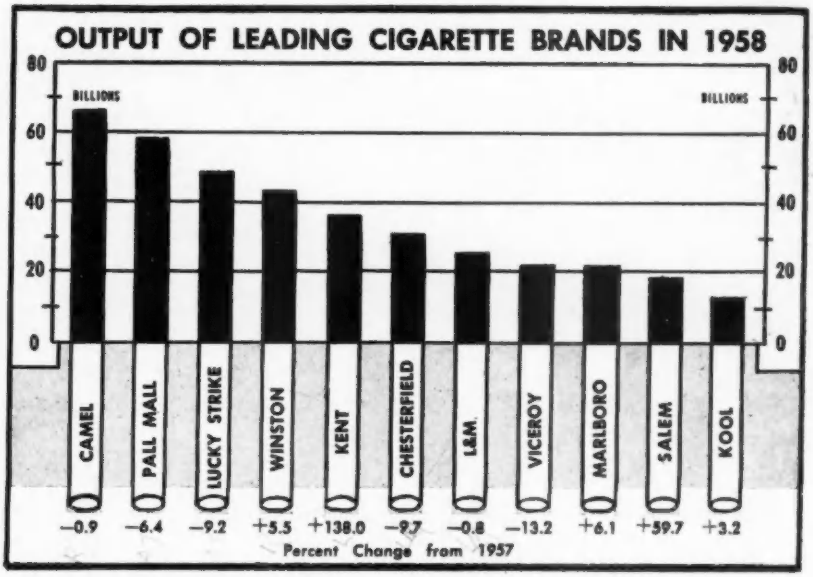
DESPITE the fact that leading tobacco equities have already risen around 50% over the past year versus around 35% for the Dow-Jones Industrial Averages, the tobacco stocks still appear to be fairly priced relatively. The five leading cigarette companies are presently selling around 12 times estimated 1958 earnings versus around an 11 times price/earnings ratio in the 1947-1950 period and a 14 times price/earnings ratio during the pre-World War II period.

In fact, tobaccos are one of the few groups which are selling at anything close to historical P/E ratio. Automobile stocks. for example, are selling at around 20 times earnings versus an 8 times multiplier in the 1947-1950 period, chemicals 27 times versus 13 times, office equipment 27 times versus 10, paper 26 times versus 6, utilities 18 times versus 12 times. Furthermore, the five top cigarette companies are presently yielding an average return of around 4.9% which compares with 3.4% for the Dow Jones averages as a whole. Since tobaccos are considered to have strong defensive characteristics, it is of particular significance to contrast the tobaccos with the utilities, and here again the tobacco's 12 times P/E ratio stands out in bold contrast with the 16 times P/E ratio of the utilities and the 4.9% yield, vastly superior to the 3.8% offered by the utility average.

The citation of the above figures tends to emphasize that tobacco stocks today are one of the better groups at this stage of the market when prices are in historically high ground with yields historically paltry. Granted the tobacco stocks have a sword dangling over their heads in the form of recurring cancer scares, however, the general public is becoming progressively more immune to the still undocumented thesis that there is a direct straight line relationship between cigarette smoking and cancer. On an empirical basis, it is too hard to segregate the various other variables to permit any proof positive, and it is unlikely that any more conclusive evidence will be presented than already has been indicated until medicine isolates the agent which causes cancer at which time it is probable that the industry will find some means to eliminate that element from the tobacco.

A further strengthening aspect in the cigarette picture stems from the fact that the rate of increase picked up steam toward the end of last year to the extent that the 1958 fourth quarter improvement was 7.6% better than the year previous. Statistically on a basis of consumption per capita, utilizing the 15 year and over age group, the average rate was 3,575 cigarettes last year (a little less than 10 a day) versus a per capita rate of 3,449 in 1957 which makes a gain of 3.6%. Thus almost half of the year to year growth was attributable to a growth over and above the mere increase in population. The big

jump in consumption took place during World War II. Per capita consumption grew from 2,065 in 1941 to 3,230 in 1946 and has gone ahead every year except for the declines in 1953 and 1954. The average annual rate is the highest on record, the second highest being 1952 just before the first cancer scare. Thus we see the resumption of the climb which was interrupted for a six year period, the time which the population needed to fully recuperate from the health scare. That still greater consumption is forecast for 1959 by the U. S. Department of Agriculture is based not so much on increased per capita consumption as on the increasing number of youths from the crop of war babies of the early 1940s coming of smoking age, a trend which will increase for some time to come on the high birth rate already established. An additional boost for per capita consumption of cigarettes may develop from the possibility smokers who switch to filter cigarettes are prone to smoke a numerically greater number of cigarettes than when those same individuals smoked regulars.



The Gains Thru Filters

The continuation of the trend to filters continued in line with industry projections. In the year 1958, filters will prove to have accounted for around 46% of the market as opposed to last year's 40%. While sale of filters of various kinds increased by 6.0%, sales of regular-size, non-filter brands were down 5.5% and king-size straights down 0.6%. **P. Lorillard & Co.** is the one manufacturer whose wagon was hitched to the filter cigarette, whose popularity blossomed after release of the first Reader's Digest article in the summer of 1957. Up till this time the smoking public had been in a state of confusion over the ludicrous claims and counterclaims of cigarette advertising. The Reader's Digest article presumed for the first time to offer the unadulterated fact. The 138% rise of Kent, an established brand, in the year 1958 is one of the seven wonders of the industry. Early last year **Philip Morris** entered the hi-fi race in a major way with the introduction of a hi-fi filter Parliaments whose sales have risen 235%, a figure which is not as astounding as it might appear since Parliaments started from so low a base. Other more recent entrants in the hi-filtration race is **American Tobacco's** hi-fi cellulose top Hit Parade and its Dual Filter Tareyton. It is conceivable that in line with the dimunition of the cancer fear that we may see the reversal of the trend to filters. Last summer's Reader's Digest articles implied that the offending nicotines and tars which might be the carcinogenic agents resulted from the use of the cheaper burley rather than the premium-priced milder, flue cured tobaccos. Thus we may see an advertising emphasis on *(Please turn to page 555)*

Position of Leading Tobacco Companies

	1957 Net Sales —(Mil.)—	1957 Net Per Share	1st 9 Months Net Sales 1957 —(Millions)—	1st 9 Months Net Sales 1958 —(Millions)—	1st 9 Months Net Earning Per Share 1957	1st 9 Months Net Earning Per Share 1958	Estimated 1958 Earnings Per Share	Current Dividend *	Price Range 1958-59	Recent Price	Div. Yield
American Snuff	$ 19.0	$4.51	(NA)	(NA)	$3.76	$4.15	$4.90	$3.00	61¾-43	60	5.0%
American Tobacco	1,098.0	8.28	$825.4	$817.9	5.90	6.21	8.25	5.00	106¾-74¾	106	4.7
Bayuk Cigars	37.8	1.96	27.6	28.6	1.26	.82	1.40	1.00	31 -16¾	29	3.4
Consol. Cigar	76.5	4.24	56.0	56.8	2.54	2.66	4.60	2.20	49½-29¼	48	4.6
General Cigar	55.5	5.62	38.9	41.4	3.78	4.39	6.00	2.40[1]	74⅞-48	72	2.7
Helme, G. W.	15.6	2.30	(NA)	(NA)	1.65	1.74	2.35	1.70	33⅛-23½	32	5.3
Liggett & Myers	570.3	6.85	434.4	556.0[2]	5.13	7.60[2]	7.60[3]	5.00	93¾-65⅝	93	5.3
Lorillard (P.)	239.4	3.79	190.9	353.2	1.85	6.46	8.00	4.00	89 -32⅜	83	4.8
Philip Morris	408.8	4.50	307.9	440.8[2]	3.24	4.90[2]	4.90[3]	3.00	65¼-43	65	4.6
Reynolds Tob. "B"	1,053.3	6.15	785.6	845.1	4.47	5.50	7.50	4.00	103 -63⅞	101	3.9
U. S. Tobacco	28.2	1.73	20.9	22.2	1.23	1.32	1.85	1.20	32½-19¾	26	4.6

*—Based on latest div. rate.
NA—Not available.
[1]—Stockholders vote 4/4/59 on 3 for 1 split. Co. intends to pay $0.20 quar. rate on new shares.
[2]—Full year 1958.
[3]—Actual earnings.

FOR PROFIT AND INCOME

Piggyback

Because of efficiency and economy, piggyback freight operations — the business of carrying truck trailers on railroad flat cars mainly on a long-haul basis—is growing fairly rapidly. In terms of cars moved, piggyback volume had a gain of about 10% in the recession year 1958, while total carloadings declined by 15%. It would grow faster if the ICC permitted railroads to cut rates on it as sharply as they would like in order to attract more business, but that is opposed by trucking interests. Railroads and makers of special equipment may make some money out of piggyback business. As it looks now, nobody will make any killing.

Two Possibilities

Two beneficiaries of the trend to piggyback are General American Transportation and U. S. Freight. The first makes the patented Clejan flat car especially designed for high efficiency in trailer haulage, and mav have sizable potentials in this product on a sale or fleet-lease basis. However, this is only one of numerous irons in the fire, as the company is a broadly diversified manufacturer and also derives large lease income from its fleet of some 63,000 tank and other specialized railroad freight cars. It has shown a knack for developing or otherwise cashing in on new sources of money making, including a recently developed process which promises to permit more economical production by makers of cement. Recently split 2-for-1, the stock is far from cheap around 53, which might be in the vicinity of 1[illegible] or 16 times 1959 earnings. Dividends are on a $1.90 rate and could be raised at least modestly before the year end. Growth of earnings and dividends in recent years has been superior to that of many over-valued stocks now selling at 30 to 60 times earnings; and the growth prospect remains promising on, say, a five-year view. In a market devoid of investment bargains, this issue is among the better long-pull buys.

U. S. Freight

This company is the leading

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Aeroquip Corp.	Quar. Dec. 31	$ .47	$ .10
Philadelphia Electric Co.	Year Dec. 31	2.76	2.60
Western Pacific R.R.	Year Dec. 31	8.83	7.54
Budd Co.	Quar. Dec. 31	.58	.28
Lehn & Fink Products	6 mos. Dec. 31	2.20	1.49
Delta Air Line	6 mos. Dec. 31	2.22	.26
Mc Cord Corp.	Quar. Nov. 30	.63	.17
Mc Kesson & Robbins	Quar. Dec 31	1.81	1.69
Norwich Pharmacal Co.	Year Dec. 31	2.28	2.07
Siegler Corp.	Quar. Dec. 31	.45	.26

forwarder of railroad freight, and has extensive terminal and trucking facilities used in that business. The operation consists of consolidating less-than-carload lots of freight into carloads, with store-door pickup and delivery service on both ends in numerous cities. The postwar record shows strong volume growth, characteristically modest operating margins and fairly good, but irregular, growth of share earnings. The company is making aggressive use of piggybacking to speed up its coast-to-coast and other long-haul service. The potential in added profits is conjectural, since much depends on regulated rates; but it might be large in time. With only some 882,000 shares of stock outstanding, any important gain in volume and/or small improvement in margin could exert sharp leverage on per-share net. Profit reached a peak $3.05 a share in 1957. Recent trends suggest around $2.60 to $2.80 for 1958; and at least a sizable gain to another new record this year. Dividends are at $2. Since around mid-1958, the stock has more than doubled in a run-up to 58, and is now at 55. Active buying of it has been based on hopeful expectations of increased earnings. They are probably well founded, although it is hard to say whether net might rise fairly moderately or more than double in a year or two.

Cross-Currents

Stock groups performing better than the market at this writing are principally air lines, baking, finance companies, department stores, coppers, dairy products, electrical equipment, food brands, machine tools, movies, paper, tobaccos and variety stores. Groups faring less well at the moment include aircraft, automobiles and auto parts, aluminum, drugs, farm machinery, office equipment, radio-television and railroads. It should be emphasized again that, with speculation and professional activity increased, the cross-currents in stock-group performance can shift considerably even from day to day.

Depressed

Lowenstein (M.) & Sons, Inc., is a large and efficient maker mainly of cotton textiles. Profit swings are normally wide and results have been poor now for an extended period. Earnings reached $5.30 a share in 1948, fell to $1.73 in 1949, recovered to $3.25 in 1950. Best recent results were $3.80 in 1955. That was followed by $1.98 in 1956, $1.07 in 1957; and recent interim reports suggest 1958 net little above the $0.60 dividend. However, the textile cycle is not ended, and it works both ways. This should be the year for a considerable improvement in volume, margins and profits. At 15¾ in a 1958-1959 range of 17-11⅜, the stock has done little or nothing for more than six months, but it has made a base, following a protracted earlier downtrend from 1955 high of 31¾ to 1957 low of 11. For about 16 months in 1953-1954 it was stuck in the range 17⅝-15¼. It then "broke out" for a rise of over 50% to 27½ in about eight months to the end of 1954. Nobody can say whether and to what extent that history might be repeated. It can be said that risk in the stock now appears relatively low, and that it could offer speculative possibilities.

Borrowing

There has been a sharp rise in orders booked by steel makers in recent weeks. Typical of the trend, it was indicated that January bookings of Bethlehem Steel were the best in about three years. This reflects increased consumption of steel; but also, perhaps even in greater degree, the tendency of customers to stock up in advance of the expected mid-year steel strike. To that extent, it is business borrowed from the future. The first-half steel earnings are going to be deceptively good, followed by a decided let-down — with or without a strike. That should be kept in mind in viewing valuations of steel stocks. We continue to think that representative issues are among the best buys on price dips; but that buyers who reach very far for them may not make much, if any, money in 1959.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
New York Central R.R.	Year Dec. 31	$ .62	$1.30
Consolidation Coal Co.	Year Dec. 31	2.01	2.90
Eagle-Picher Co.	Year Nov. 30	2.08	4.25
Pittsburgh Metallurgical	6 mos. Dec. 31	.73	1.02
Shell Oil Co.	Year Dec. 31	3.85	4.46
Caterpillar Tractor Co.	Year Dec. 31	3.48	4.35
Champion Paper & Fibre	Quar. Dec. 31	.49	.68
U. S. Lines Co.	Year Dec. 31	6.29	7.16
Garmewell Co.	6 mos. Nov. 30	.49	1.35
Standard Oil of N. J.	Year Dec. 31	2.73	4.08

Utilities

Some utilities reflect more pressure than in some time. It is probably technical correction of excessive prior advances in most cases, possibly pension-fund switching from stocks to bonds, for higher yields, in other cases. At this writing, the following utilities are down roughly 5% to 11% from recent highs: American Electric Power, Central & Southwest Corp., Cleveland Electric, Dayton Power & Light, General Public Utilities, Idaho Power, Pacific Gas & Electric, Montana Power, Public Service of Colorado. The over-valuation of Florida Power Corp. was previously cited here. It is now off 13.7% from its top.

Support

Previously under pressure for some time and off materially from their highs, the following stocks show significantly better current support: Consolidated Electrodynamics, Copper Range, Hercules Powder, International Nickel, Magma, Magnavox, National Acme and Texas Instruments.

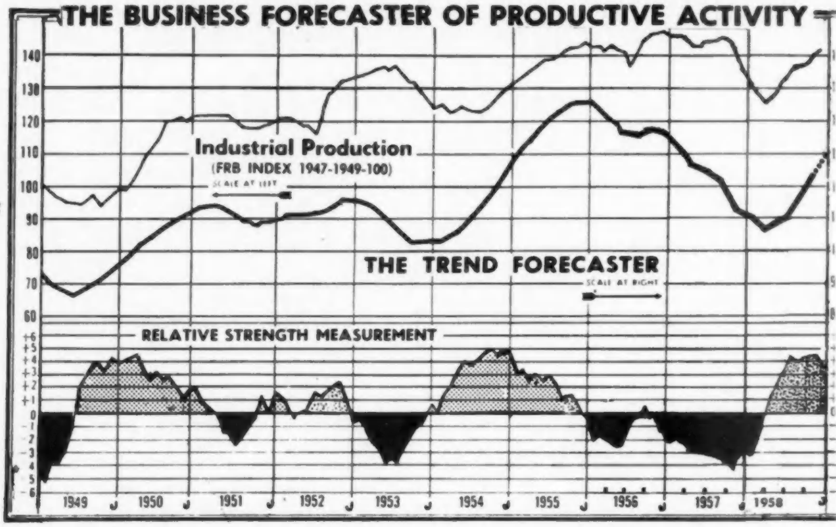
Pressure

Stocks performing worse than the market at this writing include: Admiral Corp., American Motors, Alcoa, Boeing, American Cyanamid, Bell & Howell, Getty Oil, Haveg, Norwich Pharmacal, Parke, Davis; Owens-Illinois Glass, General Motors, Polaroid, Schering, Sun Oil, Sharon Steel, Sterling Drug and Standard Oil (New Jersey). END

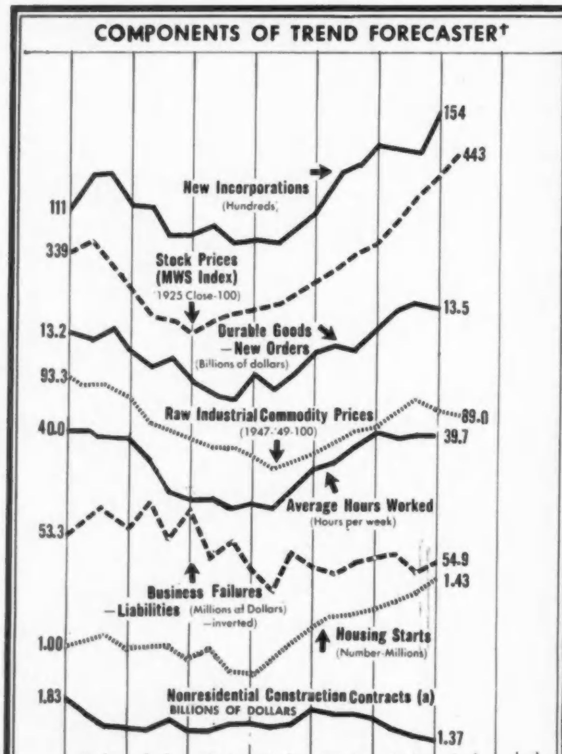
the Business A

Business Trend Forecaster *

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.



*With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F.W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Early in the new year, the component indicators entering into the Trend Forecaster have shown some hesitation. The Relative Strength Measure has stopped rising, and has declined at least temporarily. While it is still very early to reach a strong conclusion on the condition of the Trend Forecaster, it is clearly beginning to seek the next turning point ahead.

As of the latest available figures, uptrends have continued in housing starts, stock prices and new business incorporations. Downtrends have now appeared in nonresidential construction contracts and industrial commodity prices, while three other series — new orders, business failures and average hours worked — have shown no trend in recent months. A preliminary estimate of the Relative Strength Measure for January indicates a moderate decline from the +4 range that it clung to throughout most of the last half of 1958, but it has not subsided below the +3 level. On these indications, the expansion in business should be expected to continue through the first and second quarters of this year, but the Forecaster is beginning to raise the possibility of a less favorable atmosphere in the second half.

s Analyst

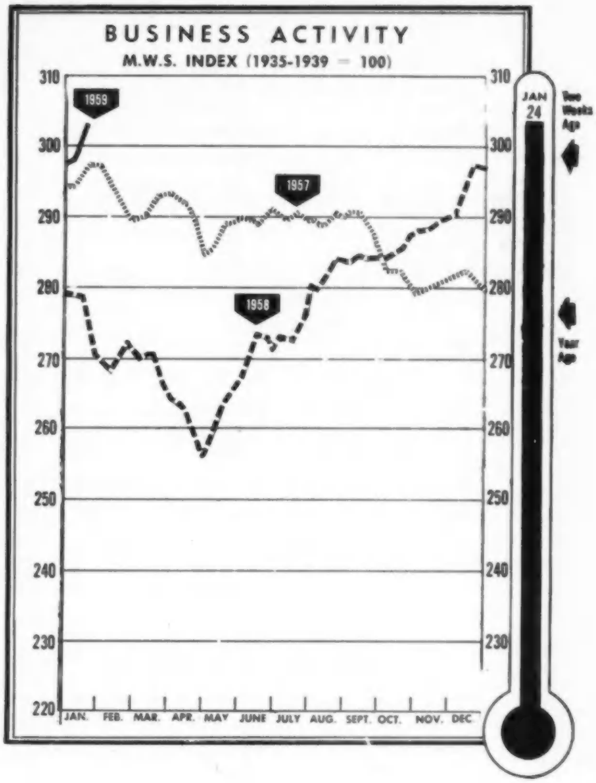
CONCLUSIONS IN BRIEF

PRODUCTION—still rising, but only slowly. Small gains continuing in many raw materials, including steel. Auto output levelling off. Outlook: further small gains for total production through first quarter.

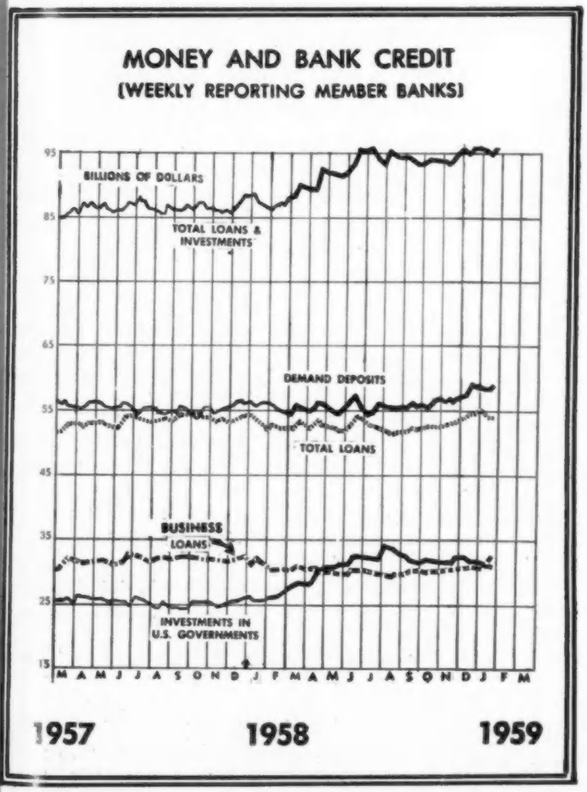
TRADE—After booming December, pace of trade has settled back. Auto sales good but not sensational. Department store trade running slightly above a year ago. Outlook: about stable in remainder of quarter.

MONEY & CREDIT—signs of further tightening appearing in market place for funds, reflecting rising inventory demand, heavy government requirements. Outlook: somewhat higher rates over next three months.

COMMODITIES—still no clear trend. Some industrial commodities rising, but resistance to increases is strong. Farm commodities well past their peak. Outlook: continued slow uptrend, confined to industrial materials.



BUSINESS ACTIVITY
M.W.S. INDEX (1935-1939 = 100)



MONEY AND BANK CREDIT
(WEEKLY REPORTING MEMBER BANKS)

FOR perhaps the first time since this very peculiar business recovery got underway, it is possible to summarize its present condition with some certainty.

In the past nine months, the recovery has regained about two-thirds of the decline suffered in the preceding nine months running from July 1957 to April 1958. Of this gain, however, a very substantial part has been concentrated in three principal markets.

● Inventory policy has reversed from about $9 billion of liquidation to a small amount of accumulation. Thus, something like $10 billion of demand has been added through the reversal of inventory policy. This is over one third of the entire rise in gross national product since the recovery began.

● Housing has also had a phenomenal burst of activity, with the annual rate of residential building climbing from about $16 billion to $20 billion in the past seven months. This increase has been largely owing to a tremendous outflow of federal funds in this area in the form of mortgage purchases in the secondary mortgage market.

● Finally, government spending has continued to advance, with the annual rate rising about $6 billion during calendar 1958.

Put these three potent stimulants together, and they account for both the promptness and rapidity of the recovery thus far. However, the concentration of the recovery in these three areas raises the question of what will carry the business trend upward from here. Enough momentum already exists to assure a rising level in the major measures of the business trend in the first half of 1959, but thereafter the trend will

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Dec.	142	141	135
Durable Goods Mfr.	1947-'9-100	Dec.	152	152	146
Nondurable Goods Mfr.	1947-'9-100	Dec.	136	135	127
Mining	1947-'9-100	Dec.	123	123	123
RETAIL SALES*	$ Billions	Dec.	17.5	17.0	16.9
Durable Goods	$ Billions	Dec.	5.7	5.5	5.6
Nondurable Goods	$ Billions	Dec.	11.8	11.4	11.3
Dep't Store Sales	1947-'9-100	Dec.	145	137	138
MANUFACTURERS'					
New Orders—Total*	$ Billions	Dec.	28.1	27.8	25.1
Durable Goods	$ Billions	Dec.	13.5	13.6	11.4
Nondurable Goods	$ Billions	Dec.	14.6	14.3	13.7
Shipments*	$ Billions	Dec.	28.0	27.5	26.7
Durable Goods	$ Billions	Dec.	13.6	13.3	13.1
Nondurable Goods	$ Billions	Dec.	14.4	14.2	13.6
BUSINESS INVENTORIES, END MO.*	$ Billions	Nov.	85.1	84.9	91.0
Manufacturers'	$ Billions	Nov.	49.3	49.3	53.9
Wholesalers'	$ Billions	Nov.	12.1	12.1	12.8
Retailers'	$ Billions	Nov.	23.7	23.5	24.3
Dept. Store Stocks	1947-'9-100	Nov.	153	152	154
CONSTRUCTION TOTAL	$ Billions	Dec.	4.0	4.4	3.8
Private	$ Billions	Dec.	2.9	3.1	2.7
Residential	$ Billions	Dec.	1.6	1.7	1.4
All Other	$ Billions	Dec.	1.3	1.5	1.3
Housing Starts*—a	Thousands	Dec.	1430	1330	1000
Contract Awards, Residential—b	$ Millions	Dec.	981	1206	759
All Other—b	$ Millions	Dec.	1301	1388	1223
EMPLOYMENT					
Total Civilian	Millions	Dec.	64.0	64.7	64.4
Non-Farm	Millions	Dec.	51.8	51.4	52.6
Government	Millions	Dec.	8.3	8.1	8.1
Trade	Millions	Dec.	11.9	11.4	12.1
Factory	Millions	Dec.	11.9	12.0	12.4
Hours Worked	Hours	Dec.	40.2	39.9	39.4
Hourly Earnings	Dollars	Dec.	2.19	2.17	2.10
Weekly Earnings	Dollars	Dec.	88.04	86.58	82.74
PERSONAL INCOME*	$ Billions	Dec.	359	360	348
Wages & Salaries	$ Billions	Dec.	243	242	237
Proprietors' Incomes	$ Billions	Dec.	58	58	55
Interest & Dividends	$ Billions	Dec.	30	32	30
Transfer Payments	$ Billions	Dec.	26	27	23
Farm Income	$ Billions	Dec.	17	17	15
CONSUMER PRICES	1947-'9-100	Dec.	123.7	123.9	121.6
Food	1947-'9-100	Dec.	118.7	119.4	116.1
Clothing	1947-'9-100	Dec.	107.5	107.7	107.6
Housing	1947-'9-100	Dec.	128.2	128.0	127.0
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Dec.	110.3	110.3	105.1
Bank Debits*—g	$ Billions	Dec.	89.5	84.7	88.3
Business Loans Outstanding—c	$ Billions	Dec.	31.4	30.6	32.3
Instalment Credit Extended*	$ Billions	Dec.	3.7	3.6	3.6
Instalment Credit Repaid*	$ Billions	Dec.	3.4	3.4	3.5
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Dec.	6.2	5.0	6.0
Budget Expenditures	$ Billions	Dec.	7.1	6.2	5.8
Defense Expenditures	$ Billions	Dec.	4.2	3.6	3.6
Surplus (Def) cum from 7/1	$ Billions	Dec.	(11.0)	(10.1)	(6.7)

PRESENT POSITION AND OUTLOOK

become increasingly dependent upon a true expansion of basic, sustainable demands for consumer goods and capital goods. A definite, firm revival in these two areas is not yet clearly documented in the statistics.

* * *

CORPORATE PROFITS—what evidence is now available suggests that the general rate of profits throughout industry has made a very healthy recovery since the early months of 1958. By all indications, the annual rate of profits is now back at about the $45 billion rate that represents the historic postwar peak. And this time there is very little illusory inventory profit in the total. As a consequence of the recovery in profits, the rate of retained earnings has risen to about $10 or $11 billion a year. This suggests that dividends are likely to rise moderately in 1959.

* * *

PRODUCTIVITY—is now one of the key statistics of 1959. While employment has risen only sluggishly out of its 1958 trough, production and sales volume has risen sharply. Explanation: output per manhour has advanced, perhaps more sharply than in any earlier postwar year.

A lot more will be heard of productivity this year, thanks to the oncoming steel negotiations. The unions will doubtless have a productivity calculation of their own ready for use in 1959 bargaining, and the figure, will look high indeed.

* * *

THE FEDERAL BUDGET — if it goes through Congress as it was submitted, it is a clearly anti-inflationary influence. Spending in fiscal 1960 (which begins July 1, 1959) is scheduled to fall about $4 billion below the rate in fiscal 1959, while receipts are expected to rise about $9 billion. If it all were to work out, the $13 billion deficit of fiscal 1959 would be converted into a balance in fiscal 1960.

But many of the areas where cuts are scheduled have important advocates in Congress. A scheduled $400 million reduction in national security spending is concentrated in foreign military assistance, an area where more, rather than less, is advocated by many. (International affairs, on the other hand, enjoy a foolproof cut of almost $2 billion, reflecting the end of capitalization payments to the

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1958 III Quarter	1958 II Quarter	1958 I Quarter	1957 III Quarter
GROSS NATIONAL PRODUCT	439.0	429.0	425.8	445.6
Personal Consumption	291.5	288.3	286.2	288.3
Private Domestic Invest.	53.7	49.2	49.6	66.7
Net Foreign Investment	0.5	0.5	0.5	3.6
Government Purchases	93.3	90.9	89.5	87.0
Federal	53.4	51.9	50.9	50.9
State & Local	39.9	39.1	38.6	37.8
PERSONAL INCOME	357.5	349.8	347.3	351.8
Tax & Nontax Payments	43.5	42.3	42.3	43.1
Disposable Income	314.0	307.5	305.0	308.7
Consumption Expenditures	291.5	288.3	286.2	288.3
Personal Saving—d	22.5	19.2	18.8	20.4
CORPORATE PRE-TAX PROFITS	—	32.0	31.7	44.2
Corporate Taxes	—	16.3	16.1	22.0
Corporate Net Profit	—	15.7	15.5	22.1
Dividend Payments	—	12.4	12.5	12.7
Retained Earnings	—	3.3	3.0	9.4
PLANT & EQUIPMENT OUTLAYS		30.3	32.4	37.8

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Jan. 24	303.5	301.6	276.4
MWS Index—per capita*	1935-'9-100	Jan. 24	225.7	224.4	207.8
Steel Production	% of Capacity	Jan. 31	78.1	72.6	54.1
Auto and Truck Production	Thousands	Jan. 31	153	160	131
Paperboard Production	Thousand Tons	Jan. 24	293	306	267
Paperboard New Orders	Thousand Tons	Jan. 24	289	270	237
Electric Power Output*	1947-'49-100	Jan. 24	245.2	243.9	226.8
Freight Carloadings	Thousand Cars	Jan. 24	586	550	572
Engineering Constr. Awards	$ Millions	Jan. 29	418	388	390
Department Store Sales	1947-'9-100	Jan. 24	105	116	100
Demand Deposits—c	$ Billions	Jan. 21	59.2	58.7	56.6
Business Failures	Number	Jan. 22	296	294	333

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

PRESENT POSITION AND OUTLOOK

International Monetary Fund.) Housing takes a heavy cut — almost $1 billion — but the argument over restoration of most of this is already under way in Congress. Farm price support is also cut $1 billion, and the farm bloc will doubtless shoot for a restoration.

While the spending side of the budget is almost universally believed to be unrealistically low, the income side may not be far wide of the mark. The estimate calls for a sharp rise in corporation income taxes, from about $17 billion in fiscal 1959 to about $21.5 in fiscal 1960. In view of the trend of profits this looks realistic enough. Similarly the estimate of personal income taxes, of about $41 billion, seems in line with the current behavior of personal incomes.

* * *

BUYING POWER—in the past several months, as consumer prices have remained stable and wage incomes have continued to rise, the buying power of weekly earnings has begun climbing again, after a year of hesitation. In manufacturing, the real value (1957 basis) of weekly earnings has climbed above $85, as compared with about $82 a year ago. Further gains seem to lie ahead for early 1959.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1958-'59 Range High	1958-'59 Range Low	1959 Jan. 23	1959 Jan. 30
300 Combined Average	448.2	283.9	448.2	445.4
4 Agricultural Implements	384.1	196.5	373.6	384.1H
3 Air Cond. ('53 Cl.—100)	129.9	87.8	129.9	129.9
10 Aircraft ('27 Cl.—100)	1252.4	982.2	1227.8	1227.8
7 Airlines ('27 Cl.—100)	1239.5	638.8	1239.5	1209.5
4 Aluminum ('53 Cl.—100)	443.7	253.4	413.6	405.0
5 Amusements	202.4	125.0	202.4	202.4
6 Automobile Accessories	429.5	298.9	429.5	425.5
6 Automobiles	100.4	40.8	99.4	97.5
4 Baking ('26 Cl.—100)	40.9	28.5	39.8	40.9H
4 Business Machines	1317.2	898.2	1291.2	1278.1
6 Chemicals	713.3	509.5	706.5	706.5
4 Coal Mining	30.3	18.4	29.2	30.3H
4 Communications	171.2	85.7	167.9	167.9
9 Construction	161.8	107.5	160.3	161.8H
7 Containers	1142.6	707.3	1098.7	1087.7
6 Copper Mining	305.7	184.6	302.9	305.7H
2 Dairy Products	147.7	115.6	143.1	140.2
6 Department Stores	123.8	78.9	123.8	122.6
5 Drugs-Eth. ('53 Cl.—100)	425.2	217.2	403.5	391.5
6 Elec. Eqp. ('53 Cl.—100)	279.4	195.8	279.4	274.1
3 Finance Companies	747.2	568.8	661.8	661.8
5 Food Brands	434.1	255.5	430.2	426.2
3 Food Stores	279.6	182.2	279.6	271.5

(Nov. 14, 1936 Cl.—100)	High	Low	Jan. 23	Jan. 30
100 High Priced Stocks	273.9	189.7	273.9	272.6
100 Low Priced Stocks	610.1	334.7	610.1	607.8
5 Gold Mining	962.8	530.5	962.8	929.1
4 Investment Trusts	190.6	144.4	190.6	186.9
3 Liquor ('27 Cl.—100)	1564.6	913.4	1519.4	1504.4
8 Machinery	456.8	343.8	452.4	456.8
3 Mail Order	267.7	143.3	267.7	265.3
4 Meat Packing	224.0	123.6	222.0	224.0
5 Metal Fabr. ('53 Cl.—100)	193.6	138.1	193.6	193.6
9 Metals, Miscellaneous	402.3	278.3	387.6	402.3H
4 Paper	1216.9	841.8	1205.2	1193.5
22 Petroleum	885.5	629.7	885.5	868.8
21 Public Utilities	351.8	258.9	351.8	348.4
6 Railroad Equipment	93.7	59.2	92.0	89.4
20 Railroads	76.7	43.0	75.3	73.9
3 Soft Drinks	628.6	445.6	628.6	617.1
12 Steel & Iron	415.4	249.3	415.4	415.4
4 Sugar	144.7	102.8	136.9	138.2
2 Sulphur	828.5	543.4	764.0	817.5
11 TV & Electron. ('27 Cl.—100)	69.8	28.8	68.4	67.7
5 Textiles	185.4	106.9	185.4	181.9
3 Tires & Rubber	224.6	142.3	224.6	224.6
5 Tobacco	188.1	110.9	188.1	186.5
3 Variety Stores	350.9	239.3	347.6	344.4
20 Unclassif'd ('49 Cl.—100)	251.6	145.4	249.3	249.3

H-New High for 1958-1959.

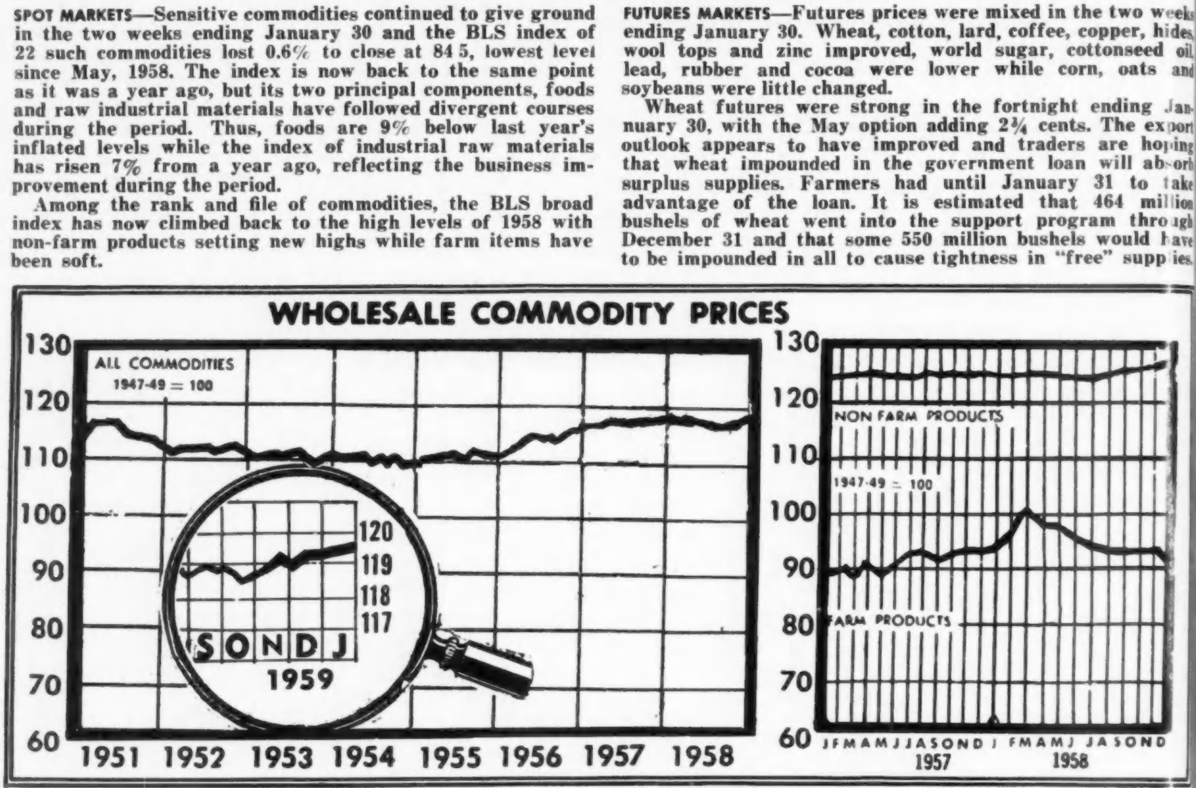
Trend of Commodities

SPOT MARKETS—Sensitive commodities continued to give ground in the two weeks ending January 30 and the BLS index of 22 such commodities lost 0.6% to close at 84.5, lowest level since May, 1958. The index is now back to the same point as it was a year ago, but its two principal components, foods and raw industrial materials have followed divergent courses during the period. Thus, foods are 9% below last year's inflated levels while the index of industrial raw materials has risen 7% from a year ago, reflecting the business improvement during the period.

Among the rank and file of commodities, the BLS broad index has now climbed back to the high levels of 1958 with non-farm products setting new highs while farm items have been soft.

FUTURES MARKETS—Futures prices were mixed in the two weeks ending January 30. Wheat, cotton, lard, coffee, copper, hides, wool tops and zinc improved, world sugar, cottonseed oil, lead, rubber and cocoa were lower while corn, oats and soybeans were little changed.

Wheat futures were strong in the fortnight ending January 30, with the May option adding 2¾ cents. The export outlook appears to have improved and traders are hoping that wheat impounded in the government loan will absorb surplus supplies. Farmers had until January 31 to take advantage of the loan. It is estimated that 464 million bushels of wheat went into the support program through December 31 and that some 550 million bushels would have to be impounded in all to cause tightness in "free" supplies.



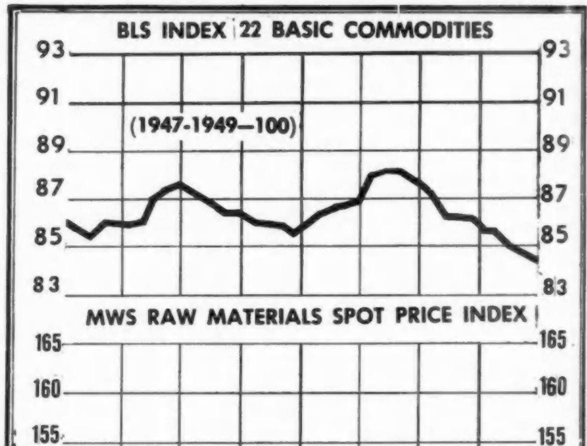
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Jan. 27	119.5	119.2	118.9	60.2
Farm Products	Jan. 27	92.0	91.1	93.7	51.0
Non-Farm Products	Jan. 27	127.4	127.2	126.1	67.0
22 Sensitive Commodities	Jan. 30	84.5	85.0	84.5	53.0
9 Foods	Jan. 30	78.5	79.3	86.5	46.5
13 Raw Ind'l. Materials	Jan. 30	88.8	89.2	82.9	58.3
5 Metals	Jan. 30	97.3	98.0	84.6	54.6
4 Textiles	Jan. 30	76.9	76.9	78.6	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1958	1957	1953	1951	1945	1941
High of Year	154.1	166.3	162.2	215.4	98.9	85.7
Low of Year	146.5	149.5	147.9	176.4	96.7	74.3
Close of Year		150.0	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1958	1957	1953	1951	1945	1941
High of Year	159.0	163.4	166.8	214.5	106.4	84.6
Low of Year	144.8	153.8	147.9	189.4	105.9	84.1
Close of Year		156.5	166.5	176.4	96.7	74.3



Farm equipments with interesting 1959 outlook

(Continued from page 535)

it which has been forced to harvest record crops in place of more and newer machinery. This business is quite profitable to the manufacturers, the profit margins on parts and repairs substantially exceeding those on original equipment.

Growing Export Market

Shipments to the export market have constituted a large portion of total farm equipment sales in recent years. With more favorable monetary conditions and the establishment of the European Common Market, demand could be stimulated. However, looking farther ahead, the trend is for the domestic manufacturers to set up foreign subsidiaries and build additional overseas plants to satisfy the demand. Some firms are already abroad, notably Deere and International Harvester, and Canadian-based Massey-Ferguson is truly international in character.

Non-Farm Lines

The federal road building program is gaining momentum at long last, a 7% increase in government outlays budgeted for this year. While Caterpillar Tractor is the giant in the earth-moving field, Deere, International Harvester, Allis-Chalmers, and J. I. Case also manufacture equipment for such uses.

Competitive Conditions

Competitive conditions are not subject to rapid change. The larger firms in the industry, with strong dealer organizations and factory branches, have become well-entrenched over the years, and costly price wars and unsettled competitive conditions are largely lacking. This is due primarily to the farmers' nature in responding to new, untested lines. They tend to stay with equipment they know can stand the rough usage to which it is subjected. In addition, the dealer and factory branch organizations which have been built up are counted on by the prospective purchaser to give needed service,

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GAS & WATER
COMPANY
INC.

DIVIDEND NOTICE

The Board of Directors has declared a quarterly dividend of 25¢ per share on the common stock of the Corporation, payable March 1, 1959 to shareholders of record on February 16, 1959.

H. G. HORSTMAN, *President*

January 23, 1959

GENERAL OFFICES:
1630 N. MERIDIAN STREET
INDIANAPOLIS 2, INDIANA

Dividend Notice

AMERICAN & FOREIGN POWER COMPANY INC.

100 CHURCH STREET, NEW YORK 7, N. Y.

The Board of Directors of the Company, at a meeting held this day, declared a quarterly dividend of 25 cents per share on the Common Stock for payment March 10, 1959 to shareholders of record at the close of business February 10, 1959.

H. W. BALGOOYEN,
Executive Vice President and Secretary

January 30, 1959.

CROWN CORK & SEAL COMPANY, INC.

PREFERRED DIVIDEND

The Board of Directors has this day declared the Regular Quarterly Dividend of fifty cents (50c) per share on the $2.00 Cumulative Preferred Stock of Crown Cork & Seal Company, Inc., payable March 16, 1959, to stockholders of record at the close of business February 16, 1959.

The transfer books will not be closed.

EVERETT B. WEBSTER, Secretary

January 30, 1959.

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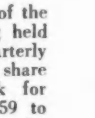
30 Days at My Risk?



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and such organizations are not easily established.

Earnings Prospects

Almost without exception, farm equipment makers reported higher earnings in fiscal 1958. The outlook in the current years favors a repeat performance on the combined strength of domestic demand and increased exploitation of foreign markets through branch plants.

Most manufacturers did not raise prices in response to the hike in steel costs, but with a round of wage increases to absorb additionally, price increases averaging 6-8% should be effected by those not already having done so. With greater volume and higher prices, earnings comparisons will be favorable.

Investment Discussion

The operating climate for the agricultural equipment makers is an auspicious one. The industry presents a broad range of opportunities to investors of various objectives, but far and away the most attractive shares currently are Deere, the top quality company in the field, J. I. Case, and Massey-Ferguson, both more speculative, but with bright prospects for improved earnings.

Deere, second largest in the farm equipment industry, has consistently turned in the best operating margins. Its earnings record, during the past decade is excellent, averaging about $4.60. During this period, dividend payout has averaged slightly over 40% of earnings. Deere's business almost exclusively is devoted to farm tractors and implements, only about 6% of total sales in fiscal 1958 going toward "off-farm" tractors and light machinery and less than 2% into chemical products and military products. Deere's fine performance can be traced to a strong dealer organization and the steady development of new products. Since 1951, Deere has regularly (with the exception of one year) increased its share of the market to the point where it now accounts for close to a quarter of total farm equipment sales. This seems testimony enough to the position and quality of Deere in its industry. *While heavily represented in the growing foreign market through subsidiaries operating in Canada, Mexico, South America and Germany, the accounts of the latter companies are not consolidated unless dividends are received, although the losses incurred by them are consolidated into company accounts.*

These companies should represent a source of future income as should the operations of John Deere Credit Corp., established in November, 1958 to finance dealer transactions.

The Chemical Division produces and markets nitrogen fertilizer and feeds, and managed to increase its sales and earnings last year in spite of over-supply in that particular market and extremely favorable growing conditions. Deere sales are understood to be running 15% ahead of last year and earnings in excess of $7 are not at all unlikely this year with $2.375 the minimum dividend expectation.

The **J. I. Case** story might be termed a story of one individual, in this case Mr. Marc. Rojtman. The dynamic and enterprising president of this company has been instrumental in Case's success, from the merger with American Tractor Company in 1957 (where he had done a similarly astounding rehabilitation job) to the adoption of revolutionary engineering concepts, (utilization of German tank automatic transmission to tractors) and energetic salesmanship. In the past two years, Case has flown its entire dealer organization into Phoenix (in the early part of fiscal 1958) and Nassau (in fiscal 1959.) Both of these presentations proved highly successful in terms of orders booked and, in the case of Phoenix, sales actually achieved. Case management has estimated that earnings could reach $2.25 this year and possibly climb to as high as $4 in 1960, barring unforseen developments such as protracted strikes. Case is also an important factor in industrial equipment, with sales to this market of $48 million in 1958. After an impressive post-war earnings record, Case experienced difficulties in the 1950's, with deficits incurred in 1954 and 1956. However, since the merger with American Tractor, which gave Case strong industrial representation, the company's fortunes have improved materially and the earnings outlook is bright. Dividends are an unknown quantity, but with approximately

$3 million of unrestricted retained earnings and higher earnings in prospect, there is a chance for some distribution this year.

Caterpillar Tractor is the leading manufacturer of earthmoving machinery, such sales accounting for about 90% of the total. Operations have been hampered recently by strikes and the recession, but the increasing outlays for the federal highway program should have a favorable effect on earnings, which are estimated to have declined to around the $3.50 level in 1958. Competition is growing in this field, however, and the shares can hardly be considered reasonably valued currently on anything but a long range view.

International Harvester is the largest company in the farm equipment field, measured by total sales, although only about a third of its sales comes from that source. It might be considered the only "full line" company in the field, since it also is an important manufacturer of earthmoving equipment and a major producer of light and heavy trucks. It is this end of its business which held back earnings last year. However, its heavy trucks have in recent years taken a greater proportion of the market. About 15% of sales comes from the earth-moving and materials-handling lines, the company having gained its position in these markets by various acquisitions of companies and manufacturing rights since 1952. Harvester is integrated in that it operates its own coal mines and steel-making facilities, and the company is well represented in foreign markets. The stock is worth retaining for the longer term.

Minneapolis Moline and **Oliver Corp.** are smaller factors in the farm equipment field. Oliver has had the more impressive record of the two, but earnings barely covered the $0.60 dividend last year. Its products also include earth-moving equipment, but the primary attraction in the shares lies in its large discount from working capital and book value per share.

F. E. Myers is a manufacturer of farm pumps with a long record of rather stable earnings and dividends. Its prime investment attraction is fairly assured income, the shares currently selling on a 5% yield basis. END

FACTS vs. FANTASIES

The stock market is now uncomfortably similar to the ill-starred market of 1929. Fact or fantasy?

The stock market is setting the pace for the rest of the economy. Fact or fantasy?

Stocks are for the few — the public can't handle the problems of investing. Fact or fantasy?

In the February issue of THE EXCHANGE, these and other areas of public interest are microscoped by G. Keith Funston, President of the New York Stock Exchange, in a penetrating article entitled "Facts vs. Fantasies." Mr. Funston sets the record straight with irrefutable facts.

The All-Important American Housewife

The American housewife is directly responsible for spending 75 to 80% of the average family's income. She's the most important person in U. S. business. But, when it comes to the vital decisions on investments which may help finance the family's future, she feels that it is strictly the man's province. In "What Every Wife Should Know," THE EXCHANGE presents the reasons why the average housewife is qualified to – and *should* – take an active interest in the family's investments.

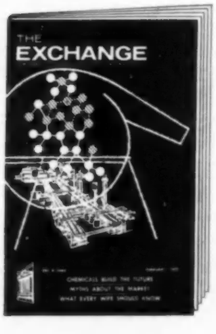
'58's Three Most Active Stocks

What did the three "most active" stocks of 1958 have in common? Which stock set the largest volume mark in twelve years? The current issue of THE EXCHANGE Magazine reveals the answers and also presents an enlightening summary of who's in and who's out of the 50 "most active" category.

The Strength of Hercules

"Born on the courthouse steps" in 1912, Hercules Powder Company has come a long way since its black powder and dynamite days. Writing in THE EXCHANGE Magazine, Albert E. Forster, President and Chairman, discusses the growth of his company since the day the Federal Court split the du Pont Company's explosives operations into three parts. His article, "Research Paces Diversification," outlines the scope of current operations and reveals the growth philosophy that gives Hercules strength.

All this – and more – is in just one edition of THE EXCHANGE Magazine. And for only $1.50, you can enjoy 12 issues – a full year of interesting, informative reading about market trends . . . new developments . . . investing. Fill in coupon below and begin your subscription with the February issue. Do it now! THE EXCHANGE Magazine is not sold at newsstands.



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acf INDUSTRIES, INCORPORATED

Common Dividend No. 157

A dividend of 62½¢ per share on the common stock of this Corporation has been declared payable March 16, 1959, to stockholders of record at close of business February 27, 1959.

C. ALLAN FEE,
Vice President and Secretary

February 5, 1959

PHELPS DODGE CORPORATION

The Board of Directors has declared a first-quarter dividend of Seventy-five Cents (75¢) per share on the capital stock of this Corporation, payable March 10, 1959 to stockholders of record February 20, 1959.

M. W. URQUHART,
Treasurer.

February 5, 1959

RIO GRANDE VALLEY GAS COMPANY

Brownsville, Texas

DIVIDEND No. 40

The Board of Directors has declared a quarterly dividend of four cents per share on the outstanding common stock of this corporation payable March 16, 1959 to stockolders of record at the close of business February 13, 1959.

W. H. Meredith
Vice President

February 2, 1959

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Impact of FORD'S re-entry into AUTO FINANCING

(Continued from page 519)

instability of the latter, but the extension of average loans over a thirty-month, and now increasingly a 36-month, period tends to even out the peaks and valleys in automobile sales. Accordingly, if a company has the size and prestige, as Ford certainly does, to inaugurate a new financing subsidiary with an immediate prospect of acquiring a substantial volume of high-quality receivables, and can do this primarily with borrowed funds rather than with cash drained from its manufacturing operations, this would look like a well-directed venture.

To Bolster 1959 Earnings?

The timing of this step may also be regarded as just a hint that 1959 is expected to show considerably less than full recovery in sales and earnings. The Ford prestige has obviously suffered from the long-persisting relapse of its stock below the 1956 offering price and its decline in earnings, which, despite a cheering fourth quarter, cut 1958 net to $.75 per share. This dissatisfaction is reflected in a tangible way by the steady reduction in the number of shareholders, a sharp contrast with the mad scramble to subscribe to odd lots at the time of the offering. While this reaction hardly threatens the Ford family's tight control of the company, a long list of happy stockholders must be regarded as a much-to-be desired aid to public relations and sales volume. Thus, any program to stabilize earnings would be particularly important just now.

The merit of a large financing affiliate in smoothing out the fluctuations inherent in manufacturing operations can be illustrated in a specific way by *General Motor's experience.* Although this company has not had as rough a time as either Ford or Chrysler during the past half-decade, *net income has nevertheless declined more than comfortably from the 1955 peak. Net income of the Acceptance Corporation, on the other hand, has increased steadily every year since 1952.* The sharpest increase was between 1955 and 1956, for each particularly good manufacturing year will give finance earnings a stimulus that will last for several years.

Annual Net Income for Recent years by Ford, General Motors and G.M. Acceptance Corp.

	Ford	G.M.*	GMAC
	(millions of dollars)		
1958	96	700E	50E
1957	283	844	46
1956	237	847	46
1955	437	1,189	35
1954	228	806	34
1953	166	598	29
1952	117	559	21
1951	126	506	27
1950	260	834	23

*Includes earnings of GMAC
E-Estimated

This is a benefit which Ford must have regarded enviously in the difficult year of 1958.

While its own credit subsidiary should thus help to stabilize Ford earnings, it is unlikely that it will contribute to sales volume as a merchandising tool. Financing arrangements obviously play a negligible part in influencing the choice of new cars. Moreover, the g o v e r n m e n t surveillance described would prevent Ford's credit unit from adopting unusually agressive methods. Thus, Ford's competitive position vis-a-vis other motor manufacturers does not seem altered by its contemplated program.

Impact on Other Finance Companies

Other finance companies are, however, in a more vulnerable position. **C.I.T.**, partly as a holdover of its Universal acquisition, has been doing an estimated 30% of its business (nearly half of its total automotive business) with Ford dealers. This has not been in any way secured by contract and, similarly, Ford will not be able to apply any pressure to woo its dealers away from their existing relationships. Nevertheless this portion of C. I. T.'s loans is certainly in danger of erosion. GMAC apparently does about two-thirds of the total financing for General Motors, and the loss of the same proportion of the Ford business by C.I.T would cut earnings perhaps 25%. Erosion is, however, a gradual process and before this much damage could be done C.I.T. will certain-

ly have looked for other profitable channels of investment. The company, perhaps anticipating some such blow as this, has already embarked on the path toward diversification, although the automotive proportion of its receivables remains relatively high, at 68%, and it lags considerably behind Commercial Credit in its entry into manufacturing and other non-credit activities.

Commercial Credit has enjoyed a healthy share of the Ford business, but Chrysler has been of approximately equal importance. While the proportion of automobile financing to total credit business is about the same as for C.I.T., Commercial Credit has, by progressive diversification in recent years, reduced the share of finance subsidiaries to its total income to about 60%. Thus, Ford dealers cannot have contributed more than 15%—20% of its net income, and the impact of Ford's re-entry into the financing field is likely to be pretty well diluted in this case.

Is New Anti-Trust Action Likely?

On a broader scope, this step by Ford could reopen discussion of the controversial subject of factory-related finance companies. Commercial Credit also belongs to this group, as it has had close relations, and between 1934 and 1938 a financial connection, with Chrysler. In 1936, partly on the instigation of the independents in the sales finance field, the Department of Justice indicted the Big Three motor manufacturers and their affiliated finance companies, GMAC, C.I.T. and Commercial Credit, on charges of restraint of trade. Ford and Chrysler quickly gave in and signed consent decrees, agreeing to sever all relationships with their respective finance organizations. General Motors elected, however, to fight the charges, and it was only finally in 1952 that a compromise settlement was reached, under which the government's demand for divorcement was dropped, but GM guaranteed that its dealers should be free to patronize any finance companies, while it would not even recommend GMAC to them.

The decrees signed by Ford and Chrysler provided, however, that they should not be binding if the same restraints were not imposed on General Motors. Thus, General Motors' partial victory now gives Ford the right to reestablish its own sales finance subsidiary.

As presently interpreted, the Anti-Trust Laws certainly do not prohibit manufacturer-controlled finance companies, provided the restrictions on dealer coercion, indicated above, are observed. Since Ford's proposed new subsidiary will represent an entirely new operation, it would be difficult to claim that it tends to create monopoly. Nevertheless, the independent sales finance companies, to whom the three majors leave only about 35% of the total automobile business handled by finance companies, quite naturally feel that the factory-related credit companies deprive them of a fair chance for the business. A Senate Antitrust and Monopoly (Kilgore) Committee in 1955 agreed with this complaint, and certainly no weaker position is to be expected of the current more solidly Democratic Congress. It could be, therefore, that Ford's announcement will prompt a new campaign for the complete separation of automobile manufacturing from the financing of retail purchases.

This, of course, is pure surmise. On its face the new development suggests that Ford will enjoy a slight benefit from the stabilizing effects of its finance subsidiary's earnings, and perhaps a greater boost in stockholder morale. Other motor companies are not likely to be materially affected. Finance companies, however, will feel the increased competition, and C.I.T. is likely to suffer temporarily, until alternative outlets for the utilization of its resources are found. END

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Incorporated

February 5, 1959.

What 1958 Earnings Reports Reveals

(Continued from page 516)

gins are beginning to weaken after several years of steady increase.

Summary

Because these groups took the full brunt of the recession we have concentrated on essentially heavy industries. Moreover, there

are few surprises in the more stable groups. A glance at the accompanying table will show that such stalwarts as **National Biscuit,** and **Sunshine Biscuit** performed about as expected. **Philip Morris,** in line with the rest of the tobacco industry performed well, continuing the improvement it has shown steadily since a new management team took the company's reins.

About the only real surprise was the much better earnings reported by the meat packers, such as **Armour & Co.,** which scored a healthy rise to $1.19 per share from 72¢ per share in 1957.

In Part II of this report, which will appear in the next issue of The Magazine of Wall Street we will appraise the reports and prospects for other important companies, including the major motors, oils, papers and other key industrial groups. It should be pointed out that in large measure the ultimate strength of these industries will determine the vitality of the steel industry — and will hold the key to industry's capital spending plans in 1959. In turn, these factors will decide whether the fourth quarter earnings recovery, impressive at it was, will continue — or will prove to have been just a flash in the pan. The importance of this question for the level of stock prices cannot be overstated END

The Cold War on the Domestic Economic Front

(Continued from page 512)

without pay lost an estimated $5 million — the combined wages of 17,000 payrollers about 90 per cent of whom weren't asked whether there should be a strike or on what basis it should be settled.

"The cost outside the newspaper business has been in incalculable millions of dollars," said Chairman Barney G. Cameron of the Publishers Association of New York. "The effect of the strike has been felt in industry, trade, cultural life, and almost every element of our society."

This does not overstate the case. Theaters unable to publicize their billings suffered a 50 per cent cut in box office in Greater New York. Print paper manufacturers dropped $820,000 a week. Department stores, especially those relying on heavy telephone business, furloughed most of their telephone operators. No ads; no calls.

To the extent that international unions were called on to contribute, locals all over the nation paid for a strike in New York City. American Newspaper Guild ladled out $100,000 a week. ANG financial officers protested they were going broke in the process and raised dues to five per cent of the weekly paycheck of its members.

And No Gain For Workers

Here is the point that cannot be stressed enough in presenting to the rank-and-file of union workmen the cost they pay for the arrogant bravado of their "chiefs": The offer that ended the strike was the same one that had repeatedly been made by the publishers to the union, and twice formally rejected.

The Rev. William J. Smith, director of St. Patrick's Institute of Labor Relations, Jersey City, N. J., issued a statement that the strike could not be "morally justified." An eminent, respected authority in the field of labor, Father Smith placed his finger on the weakness which the Smathers-Chelf proposals and like measures would cure. He said: "To date, no law, board or code has been established to prevent such strikes." Then he offered a list of five conditions which must be met, he said, if *any* strike is to have moral justification. The guides are:

1. The cause must be just.
2. The means used in the execution must be morally good.
3. The good anticipated from the strike must be at least equal to or exceed the damage that can be anticipated.
4. There must be a solid hope of success before action is taken.
5. The strike is a last resort to be used only when every other means of peaceful settlement either failed or proved futile.

Point 5 will be recognized as the heart of the bills due to come before Congress.

Before leaving the subject of newspaper strikes in New York City (the most costly one ran for 17 days in 1945), some of the economic damage suffered by unions last December may be examined with interest. The data more comprehensive than most is certain to engage the attention of Congress.

Union Treasuries Emptied by Strike Benefit Payments

While publishers were offsetting against their losses, payroll money which was not disbursed and $2 million worth of newsprint paper saved, the unions — most of them not involved in the labor dispute — were dipping into their treasuries in painful depth. Some were literally scraping the bottom of the till for money to pay members "strike" benefits. These are the "innocent bystanders" Smathers and Chelf hope to save from their picket-happy leaders.

The International Typographical Union thinned its bank account for between 2500 and 3000 idled members — $88.80 a week for heads of families, $63.50 for single men. The stereotypers union distributed about $50,000 a week among 400 members whose union pledge forced them to obey the picket line block. The photoengravers union with $126,000 in its treasury when the strike began had to ask the international union to advance $50 a week to each member, making the weekly benefit $87.50. Paper handlers went to their international union and wangled $25 a week in order to pay 350 idled men $50 a week. The mailers union members received $72.70 — all of it by tapping the international.

Hoffa's Contempt For Congress

Tied in with the economic costs of strikes but inestimably more damaging from the standpoint of national safety was Hoffa's declaration of war on the New York City Police Commissioner's labor policy. This obviously was a gimmick on Hoffa's part to dramatize his announced plan to bring state and municipal workers into the teamsters' union. But he made a fatal blunder. When he boldly proclaimed that police stations and fire houses would be picketed, essential supplies would not be delivered by the teamsters union, the public awakened to a

THE PRESIDENT'S PROPOSALS FOR LABOR — MANAGEMENT LEGISLATION

1. All unions to file detailed reports with the Department of Labor, to furnish information on their financial operations to their members and such reports to be open to the public.
2. All unions to file with the Labor Dept., copies of their constitutions, bylaws and procedures.
3. All unions to be required to keep proper records which are open for examination by government and union members.
4. Unions and employers to report any payments, transactions or investments which create conflicts of interests or interfere with statutory rights of members and employees.
5. To require that union officers administer union funds and property solely for the benefit of the union members and to make this duty enforceable in any court in a suit for an accounting by the union or by members.
6. Unions to observe minimum standards for election of officers, including periodic elections, secret ballot, the right of any member to run for office and a ban on use of union or employer funds to promote candidates for union office.
7. Unions to observe minimum standards in supervision and control of subordinate bodies; such control to be limited to correcting corruption or disregard of democratic procedures.
8. The administration of this legislation to be vested in the Secretary of Labor, with appropriate and adequate authority to compel compliance.
9. Criminal penalties for wilful violation of the act, concealment or destruction of records, bribery between employers and employee representatives and embezzlement of union funds.
10. Present remedies under state or Federal law to be preserved for union members.
11. To amend the secondary boycott provisions of the National Labor Relations Act, so as to cover direct coercion of employers to cease doing business with other persons; and inducement of individual employees to refuse to perform services with the object of forcing their employers to stop doing business with others.
12. To make it illegal for a union, by picketing, to coerce an employer to recognize it as bargaining agent, where the employer has recognized another labor organization in accordance with law, or where a representation election has been conducted within the last twelve months or where it cannot be demonstrated that there is sufficient interest on the part of employees in being represented by the picketing unions.
13. To authorize the National Labor Relations Board to decline to take cases where the effect on commerce is insubstantial and to permit state agencies to act in these cases.
14. To eliminate the prohibition barring certain strikers from voting in representation elections, leaving their voting eligibility to the National Labor Relations Board for determination.
15. To authorize the board under certain conditions to certify building and construction trades unions as bargaining agents without an election.
16. To allow the board to speed up representation elections without prior hearings, where no substantial objection is made.
17. To extend the non-Communist affidavit to employers as well as unions.
18. To make clear that parties to a collective bargaining agreement need not negotiate during the life of the agreement, unless the agreement so provides.
19. To authorize the President to designate an acting general counsel of the board when vacancies occur.
20. To require that the board be bipartisan in composition by providing that not more than three members be of the same political party.

peril greater than that imposed by the cold war and the conquest of outer space.

If he were to succeed in organizing the policemen and the firemen and placing them under his code, the decision whether property and lives might be saved from destruction would rest with Hoffa. By the single command, 'Strike!" he would be in a position to turn the United States into a lawless jungle that would make the Cuba of recent days appear idyllic in comparison. The President of the United States and the armed forces at his command would be rendered powerless by the expanse of the crisis.

In that situation, Jimmy Hoffa might as well move right into the White House. But he wouldn't: his palatial teamsters union building is a more modern, better equipped and a more costly structure than the White House itself! Then, too, it looks down upon the Senate and House chambers literally, and possibly in other respects.

Has Hoffa taken "one step backward, in order to take two steps forward" in imitation of the Communist formula? Yet it would be grievious error to overstate the extent of this retreat. He backed down on calling a national convention to "ratify" his dictatorship over the teamsters union. That ducked a test of authority between Hoffa and the Federal judicial system. He canceled his challenge to law, order, and public safety which was implicit in the plan to picket the protection departments of New York City. But the simile of the wounded jungle beast is apt, for people of the Hoffa stripe are most dangerous when they have been badly, perhaps mortally, hurt.

Congress this time was quick to respond to the threat. While the Smathers-Chelf approach seems made-to-order to put down Hoffa's ambitious expansion moves as they arise, Senator John McClellan of Arkansas, invited his colleagues to join him in seeing to it that they do not arise. The Chairman of the Labor Rackets Committee has prepared legislation to prevent the team-

sters from making alliances with any other transport unions, and indicated he looks favorably upon the even stricter proposal that none but teamsters (vehicle drivers and helpers) be permitted to join the union Hoffa now heads. The latter approach was suggested to the Kefauver Committee's opening session this year, by Edwin G. Nourse who was chairman of the Council of Economic Advisers in the Truman Administration. Its effectiveness is immediately apparent.

Meanwhile Hoffa's purpose is made clear in his call to IBT members to launch public employee organizing campaigns this year: "It is high time that informal understandings, verbal and written, which exist in too many governmental agreements, be eliminated and replaced by strong, positive union contracts. Our International Union negotiates such contracts."

We single out Hoffa because we believe him to be the most dangerous individual in our country today. Dangerous to the sound expansion of our economy — the well-being of the union worker — and to maintaining our free system of government. All labor excesses seem to be concentrated in the activities of this single union leader. And there is no question that if we clip his wings the entire labor movement will benefit and be reestablished on the sound basis and goals of Samuel Gompers, its founder — for the benefit of the workers — so that they can benefit financially and economically — be subject to no man, and retain the freedoms to which they are entitled as citizens of these United States.

Our country stands at the cross-roads economically and politically. That Mr. Hoffa believes this to be so, is clearly evidenced by his hot pursuit of every advantage — his testing of every opening that leads to personal power. And the inadequacies of the labor law are his opportunity.

The struggle against this cold war at home must be resolved, if we are to have the strength needed to win the cold war abroad.

With a large number of major labor contracts expiring in 1959 (negotiations have already begun on several of them) Congress must act with firmness and speed if it is to prevent shut-downs, dislocations and economic problems, already looming on the horizon. And it won't be too soon.

That is the challenge the new Congress faces today. Are they going to bicker and stall? Or will our law-makers give us the legislation necessary for survival? That is the question of the hour. For history will be made by the 86th Congress, and future generations will know where and upon whom the blame falls if Congress is remiss in this crisis in our affairs — and in stabilizing our ship of state. END

A Steel and A Rail

(Continued from page 532)

Near Term Prospects

Barring the upsetting factor of a prolonged interruption in production due to labor difficulties, the near term prospects for Big X are good. Operating at an average yearly rate of around 64% in 1958, the company showed earnings on the common stock of $5.13. Operating at an anticipated 70% to 75% in 1959, and adjusting for an increase in capacity, it seems entirely possible that earnings of $8.00 could be achieved this year. At a higher operating rate results would be even better. On a current price of around 95, the common stock is selling at 11.9 times estimated 1959 earnings.

This higher P/E ratio reflects the changed status of Big Steel in the minds of investors, mainly as a result of 1958's fine performance. Not only did the company operate profitably at rates which several years ago would have seemed disastrous, (earning $1.25 per share in the second quarter while operating at 53% of capacity) but the dividend was earned with margin to spare. Currently the common yields only 3.2%, but in view of U.S. Steel's strong financial position, an increase in the $0.75 quarterly dividend remains a possibility. A stock split may very well be forthcoming. The company has for many years been proud of the broad base of ownership its stock enjoys and a 2 or 3 for 1 split would help insure continuing wide participation.

U.S. Steel has given ample evidence of its strong financial position. The $4 billion modernization program to which reference was made earlier was financed internally with the exception of $699 million which was received from the sale of debentures. It is interesting to note that this total capital expenditure represents more than $65 per share. As of September 30, 1958, $74 million was authorized for capital expenditures of which some $530 million was in reserve.

Note must be made of the Corporation's pension fund plan. Contributions to the fund are carried as employment costs, and although no payments to the fund were made in the first three quarters of 1958, payments have now been resumed. Earnings last year would have been reduced by $0.86 per share had payments been made at the 1957 rate. Assets currently held in the fund are believed to be more than adequate to meet presently accruing pension costs as well as to pay full pensions to all those now entitled to receive them.

The Years Ahead

The longer term outlook for this industrial giant is good. While the steel industry will no doubt continue to be somewhat cyclical, reflecting cross currents in the economy, longer range studies point to continued growth in the coming decade. There is no denying the important role steel plays on our national scene and U.S. Steel's research facilities in Pennsylvania are devoted to both fundamental scientific studies and applied research. With a diversified product mix, increased capacity, a strong and able management, and efficient operations. Big Steel should continue to lead the industry into the most profitable period of its history.

Cheseapeake & Ohio Leading in the East

By Winston K. Frederick

Chesapeake & Ohio Railway, today the seventh largest railway system, apparently has recovered from the recession, and it now appears headed for higher operating results in 1959-1960. With better business now prevailing, together with Company pol

icies of sound expansion and controlled costs, the shares of C&O are a worth-while holding for an investment portfolio.

Bituminous coal and coke contributed about 50% of total 1958 revenues compared to 57% the year before. Merchandise handling (iron, steel, auto parts) rose to 42% of total volume from 30% in 1957. Other revenues and passenger business, a minor segment of C&O's total business, accounted for the remaining 8%,—approximately the same as the 1957 figure.

C&O's lines extend from the port of Newport News, Virginia, through the Pocahontas coal region of West Virginia up to and ending at the shores of Lake Michigan. Here the Company, via its fleet of trainferries, connects its rail lines with railroads at three ports on the western shore of Lake Michigan, leading to all the Northwest. C&O also connects with more than 50 railroads at 37 different interchange points on its systems. In 1958, C&O moved 12½% or 50 million tons of national production of bituminous coal on its lines,—a highly respectable figure.

With higher production of coal foreseen in 1959, plus renewed business confidence, leading to higher freight business, we feel that C&O should show higher revenues and earnings in 1959.

Bituminous Coal Outlook

The bituminous coal industry appears to have turned around from the dismal first half of last year. The year's production in 1958 will probably amount to 400 million tons off from the 490 million tons recorded in 1957.

Now that the recovery seems well on its way, what lies ahead for the industry?

►First, coal inventories are considerably lower than a year ago. The 7 million tons domestic coal on hand now is 7.5% lower than the comparable period of 1957. With coal stocks substantially liquidated, consumers have already started replenishment programs; thus, increasing railway freight revenues.

►Second, use of bituminous coal is rapidly expanding and improvements are continuing in present markets. Utilities are of vital importance to the coal industry since they are the biggest users. In many areas of the country, coal is the preferred fuel due to lower cost to the consumer. With electrical generating capacity expected to double in 1965 and triple by 1970-1975, increased demand for this fuel is assured. The steel industry is also a large purchaser of coal and coke for use in the preparation and constituents of steel. Top officials of the leading steel producing companies have estimated steel production in 1959 will range from 105-115 milion tons. This will also increase the need for bituminous coal. The third largest user and increasing the fastest over the last few years has been the dynamic chemical industry. Consumption is expected to increase substantially by this industry, which derives many new chemicals and uses from coal. Extensive research and development work on producing liquid fuels and chemical compounds are presently going on by firms such as Union Carbide, Allied Chemical, Consolidation Coal — among others.

►Third, and maybe the most interesting new outlet for consumption of coal has been exporting coal to Europe. In 1958, business and seasonal conditions in Western Europe kept foreign demand for coal low. While the future outlook for increased exporting of coal looks bright, 1959 does not promise to be a banner year. Unsettled political, economic, (franc devaluation, etc.), and unemployment problems face Western Europe today. The Rhur district, unable to supply all Europe with its coal requirements, usually has turned to the U. S. to fulfill its needs, but presently has a high inventory position. These conditions could change rapidly with any kind of a foreign industrial spurt, but the feeling here is for only moderate growth over the next few years.

Based on present consumers and growth potentials, carriers of bituminous coal should benefit in the months ahead. C&O, carrier of an above average ratio of bituminous coal, commands a quite favorable position in this growth picture.

Management and Modernization

The Company, incorporated in 1878, having corporate predecessor companies dating back to 1785 and headed by George Washington, has followed a path of sound expansion with comparatively small stock dilution. The largest merger, effective in 1947 with the Pere Marquette Railway, has also been the most favorable one to date.

The able and efficient management has put major emphasis on the rigid recruitment and development of employees to a point where they are acknowledged as the most efficient in the railroad industry. The Company has undertaken laborious programs of cost cutting methods. C&O was the first railway to install an electronic computer (Univac) to do much of the complex paper work. The rental fee of $30,000 monthly is termed conservative in comparison to the savings afforded the Company.

Considerable industrial expansion in areas served by the C&O has occurred in the last few years, mainly due to the advertising programs of management. In 1958, ninety new plants chose locations in C&O territory, expected to produce $4 million in additional annual revenues.

Other improvements include a $7 million mechanical shiploader at the Presque Isle docks in Toledo. This new facility is expected to increase handling capacity in the Toledo area by 40%. Electronic traffic direction systems were added to many of C&O's main lines. Five hundred new coal and merchandise cars (many manufactured by C&O) were added in 1959. Just recently the Company announced it was entering the piggyback (flatcars carrying over-the-road truck trailers) freight business.

Capital expenditures last year were about $21 million compared with $88 million in 1957. The Company has spent more than $700 million for additions, improvements and dieselization since 1945, illustrating management's views on consistent improvements and modernization.

Bright Picture Ahead?

The financial condition of the Company has not changed materially in 1958, according to management. Working capital has increased to about $55 million at the year's close, compared with $44 million a year before. The

higher net working capital figure was produced by the lower capital expenditure appropriation. Capital expenditure in 1959 should be similar to the $21 million sum spent last year.

Total operating revenues in 1958 just concluded were $356 million — down 18% from the $432 million shown in 1957. Net income of $52 million or $6.36 per share was also off from the $68 million net or $8.36 obtained in record 1957. Dividend policy of $4 annually is adequately covered and affords the investor a good return.

In earning $6.36 per share for last year, C&O did right well for itself in the final quarter just concluded. In the fourth quarter, revenues rose to $96 million with earnings of $2.20 per share. These figures represent 12½% and 100% increases respectively, over the first quarter results. Should these results continue and we see no reason for failure to do so, earnings should approximate $8.50 per share in 1959 on revenues of about $430 million.

END

Companies Where New Management Policies Are Revitalizing Opperations

(Continued from page 529)

Other small companies were absorbed to place still greater emphasis on non-railroad lines.

Acquisition of Melpar, Inc., put Westinghouse into the military field, and this division, engaged in research and development of electronic equipment for missile projects, has been substantially enlarged. It holds prospect of encouraging growth. Disposal of unprofitable properties last year resulted in a nonrecurring handicap on earnings. Thus the outlook for this year has improved with a brisk recovery in demand for railroad equipment and more satisfactory margins in other lines. Net profit is expected to rebound from an estimated $2.05 a share for 1958, which compared with $2.89 for 1957. The $1.20 annual dividend is well protected.

Research in electronics, designed to provide more satisfactory service and to reduce manpower requirements accounted in large measure for **Western Union Company's** comeback from a dismal performance immediately after the war. Labor had represented far too large a percentage of operating costs, especially in an inflationary economy causing recurrent wage increases. With the benefit of modernized and efficient communications facilities, encouraging progress has been made in recent years. Rate increases needed to counteract effects of repeated wage hikes have helped reverse the disappointing earnings trend. Net profit on the common stock has fallen to $1.87 a share for 1958 from $2.03 for 1957, but a turn for the better has been experienced lately and earnings this year may climb to the best level since the 1953 showing of $2.91 a share. Dividends have been placed on an annual basis of $1.20 a share.

Intensification of the search for nuclear weapons has changed the outlook and manufacturing programs of many aircraft companies. The effect of progress in space research is well illustrated in the case of the **McDonnell Aircraft Corporation,** which recently was selected by the National Aeronautics & Space Administration to design, develop and build a manned space capsule. It is estimated that the project may require several years and may involve expenditures exceeding $15 million. The company has been awarded contracts by the Air Force for its F101B Voodoo twin-jet fighter, while the Navy has ordered more than a score of all-weather attack fighters costing about $7.5 million each.

Sales have developed an encouraging uptrend. Volume for fiscal 1958 ended June 30 increased 32 per cent over the 1957 figure, and indications point to another new high record for fiscal 1959. Backlog of orders is estimated to have increased substantially over the $505.7 million at the June 30 fiscal year end. Earnings have been improving almost steadily, having reached $6.34 a share for 1957 and $6.33 for 1958. Shipments have increased more than five-fold in little more than six years since the Korean conflict. Dividends are being paid currently at $1 a share annually.

Because of active federal and state regulation of public utilties, managements in this sector of business have less latitude in promoting new ideas and in stimulating sales volume. Nevertheless, most utilities have taken impressive steps forward in modernizing operations. As a case in point, it is interesting to note how the **Cleveland Electric Illuminating Company** has endeavored to hold down fuel costs. Extensive research is conducted in an effort to improve operating efficiency even though benefits of savings accrue to customers rather than to the company and its stockholders, for regulatory authorities are loath to permit profits to rise significantly.

The company co-operated with the Consolidation Coal Company in construction of a coal pipeline from southern Ohio coal fields to the Cleveland East lake plant. This new type of transportation, offering substantial economies, floats coal over a route of 108 miles to the power plant, where it is dried for use in furnaces. It is designed to move more than 1.2 million tons annually, or about 40% of the utility system's fuel requirements. Such resourcefulness tends to hold down electric rates and encourage increased consumption, all contributing to more satisfactory results for stockholders. Earnings provide an adequate coverage for the $1.60 dividend.

END

Major U.S. Markets Abroad

(Continued from page 526)

is reluctant to use deficit spending as an economic stimulant. However, credit has been eased to encourage private investment. The outlook this year is for a gradual pick-up in the economy, but imports from the U.S. will lag.

Japan

Japan's economy is once more on a solid footing with almost all major indicators showing substantial recovery. Last year's worldwide slump caught Japanese industry in a period of over-expansion and excess inventories as a result of the 1956-57 export boom. Drastic retrenchment measures were necessary to cut back imports and thus stop the loss of foreign exchange. The tight money policy also helped to cut costs and keep export prices a

competitive levels. Thus Japan was able to reduce imports by 30% last year while maintaining exports at a near record volume. The result was a welcome increase in international reserves.

With Japan's balance of payments now in good shape, the government has been able to relax some of the earlier economic restraints. There are good prospects for a pick-up in imports from the United States this year, though the increase will be small since many of Japan's customers are still having payments difficulties. Our sales to Japan — chiefly industrial materials, foodstuffs, and machinery — dropped by one-third in 1958. Japan is this country's best market in Asia and it is tied with Great Britain as our second best customer.

India

India has found that its state planners bit off more than they could chew with the ambitious Second Five Year Plan. Anticipated revenues were over-estimated, costs were under-stated. The shortfall has been further aggravated by declining prices for export commodities and a succession of poor havests. Exports were down 10% last year and although imports were cut back 25% a trade deficit of $400 million remained (vs.$800 million in 1957).

Nevertheless, the stakes are high, and that India should succeed in its prodigious effort is vitally important to the Free World. India is attempting by democratic means to accomplish what China is doing through forced industrialization. The results are being keenly watched by many newly independent nations.

Thus far massive foreign aid has made up the gap in India's balance of payments, and more is promised this year from the United States and other countries. Even so, production of existing industry has been slowed by import shortages. Hopes are that the 3-million ton addition to steel making capacity scheduled for the next two years will relieve a major bottleneck. In view of increased U.S. credits, our exports to India should rise moderately this year. Other than surplus crop sales, principal export items are semi-finished metal manufactures, machinery, vehicles, and chemicals.

Philippines

The Philippines has entered 1959 with mixed prospects. Among the favorable factors are signs of a bumper rice harvest this year; good foreign demand and price levels for coconut products, the principal agricultural export; an improved outlook for copper, the leading mineral; and a 1958 trade deficit less than half that of the previous year. On the other hand, the nation's foreign exchange reserves have dropped below the minimum working level, the government is having trouble meeting domestic obligations, and industrial production has been stymied by lack of import allocations.

A primary cause of these difficulties has been past over-emphasis on industrialization at the expense of export production. Another factor has been the government's inability to hold the line on periodic retrenchment programs. Deficit financed public works have a powerful appeal to Filipino politicos, and the current proposal to increase the number of congressmen will certainly not promote economy.

Philippine-American relations are currently under strain, but this is probably the prelude to announcement of a new U.S. aid program. As far as the trade outlook is concerned, the United States is gradually losing its favored position as supplier of the Philippine market. Under previous agreement, the Philippine tariff on U.S. goods jumped from 25% to 50% of the normal schedule at the beginning of this year. U.S. exports cover a wide range, including foodstuffs, industrial materials, consumer goods, and capital equipment. END

Which Tobacco in 1959?

(Continued from page 537)

quality tobaccos rather than filters. In this connection, it must be pointed out that the use of the reconstituted tobacco which is the process of converting leaf stems and other waste tobacco into usable tobacco may serve to increase profit margins of cigarette companies. Profit margins, however, improved generally for the industry over the past five years due to a higher overall price structure.

Mentholated Gains

Another trend which served to bolster the filter market in 1958 was the rising popularity of the mentholated filter tip. *Lorillard's Newport* starting from a low base showed a year to year gain of 189%, **R. J. Reynold's** *Salem* showed a gain of 60% for the year, **Liggett & Myers'** *Oasis* was up 56%. On the other hand, sales of *Phillip Morris'* mentholated Spuds lost 33% but undoubtedly due to Philip Morris' promotional neglect to concentrate its efforts on its two leading brands, Marlboro and Parliaments.

Cigarettes Sales Position

The five leading publicly owned cigarette companies turn out around 90% of the total cigarettes produced in this country. *American Tobacco* with a little over $1.1 billion sales has relinquished its spot as the number one manufacturer to *R. J. Reynolds*, but the discrepancy will not be very great. American accounts for around 28% of total U. S. sales and about 70% of the king size with top selling king sized Pall Mall. During the past year Pall Mall increased its percentage of the market by 6.4% in comparison to its nearest rival R. J. Reynolds' Winston's 5% gain. Regular non-filter Lucky Strike slipped 20%, although still maintaining its position as the second largest selling regular sized cigarette.

In June of last year **American Tobacco** added a new cellulose hi-fi filter to its Hit Parade, the successful launching of which persuaded the company to introduce its dual filter activated charcoal tip Tareyton two months later. Promotion of these two new high-fi brands served to bolster the sales for the last half of the year making a probability that overall 1958 volume will exceed 1957. Because of price increases, per share profits for the first six months of last year improved over the comparable period in 1957, $3.92 versus $3.34 despite a 1.7% decrease in sales. On the contrary, third quarter profits were off despite a modest sales increase because of heavy promotional outlays. Full year earnings

for 1958 may approximate the previous year's $8.28 per share, but some improvement may be looked for in 1959. At its recent price of around 104, yield on the indicated $5.00 dividend is 4.9% with some possibility of an increase in 1959, should the earnings picture improve. Now selling over par, American Tobacco is considered a good candidate for a split later in the year.

Liggett & Myers, the third largest company in the field, registered a 5.2% decrease in sales for the first nine months of last year, and full year volume failed to equal 1959's $570 million. Most of the drop off occurred in the first six months of last year at the acme of popularity of the hi-fi filter. Chesterfield, especially the regular sized, slipped, making a total decrease for regular and king-sized Chesterfields combined of around 10% for the year. Filter tip L & M also slipped slightly, perhaps showing a 1% loss for the year. Oasis, Liggett & Myers' entrant in the mentholated field is doing exceedingly well having registered a 56% gain in sales last year over 1957.

While sales have made no relative progress industrywise and profits are lower than results in its 1948-1950 peak years, earnings are nevertheless adequate for ample coverage of its $5.00 dividend. In 1957 Liggett & Myers netted $6.85 per share. For all of 1958 company net rose to $7.60 per share because of price increases early last year. 1959 earnings should equal 1958. Company is watching the hi-filter race, and may at some future date field one of their own entrants if it seems adviseable. The 5.5% dividend based on the recent price of the common stock of around 91 a share offers an attractive return.

Philip Morris, is one of the more alert and aggressive of the cigarette companies. Last year's sales may show a gain of around 20% over 1957, from $408 million to around $440 million, which is second only to the extraordinary showing of P. Lorillard. The principal reason for the gain was its concentration of promotional and sales effort on its most recent entrant into the high filtration field, the recessed filter Parliaments. Philip Morris also pushed its other filter tip, Marlboro with resulting sales increase of around 7%, but its regular and king sized Philip Morris suffered a 20% drop in sales and its mentholated Spud a 33% drop. Premium priced Benson & Hedges (formerly called Parliaments) also suffered a substantial decline because of the weight of the popular priced competition in the filter line. Philip Morris has been one of the leaders in the packaging field, and was first to feature its Marlboro in a flip-tip box, which now seeming to be waning in popularity. Starting last June, Marlboro was also made available in the regular flexible soft-pack.

Philip Morris was the first of the cigarette companies to seek diversification. In mid-1957 Philip Morris acquired Milprint, manufacturers of a general line of flexible packaging. Packaging has proved to have had an excellent growth, and it is thought that Milprint might contribute $75 to $100 million of sales in 1959 and perhaps add as much as $1.00 to per share earnings. Profits were restricted in the first quarter of the year because of high introductory expenses on its Parliament brand. Philip Morris earnings in 1958 rose to $4.90 per share with expectancy of around $5.25 to $5.50 for 1959. Common stock seems fairly priced at its recent market of around 63.

Lorillard climbed from a poor fifth place among the publicly owned American companies in 1956 and is now running close behind third place Liggett & Myers. Estimated 1958 sales of $480 million are almost 2½ times 1956's $200 million. Granted Lorillard rode to popularity on the strength of the Reader's Digest boost for its hi-fi Kent, Lorillard is, nevertheless, entitled to full credit for having the merchandising and promotional know how to sustain the impetus of this fortuitous assistance. Kent is second on the filter popularity scale to Reynolds' top selling Winston. Kent's sales gain in 1958 was 139% while Newport, Lorillard's entry into the mentholated field, rose 189%, starting, of course, from a low base. Old Golds which picked up in 1957 on the crest of Kent coupled with a relatively favorable Reader's Digest rating slipped badly last year. Combined sale of all Old Golds, regular, king-sized and filters slipped 17%. To further bolster sales in 1959, Lorillard is just beginning the test-marketing of 20 cork-tipped cigarette-sized cigars in a flip top box at a price of 35¢.

Capital requirements for construction of additional production capacity and inventory requirements necessitated financing last year in the form of the sale of around 364,000 additional shares of common. Allowing for this dilution which amounted to around 15% on 1957 capitalization, earnings for 1958 should approximate $8.00 per share. Although it is probable that the sales growth curve will flatten in 1959, earnings may continue to show some improvement because of widening profit margins. If 1959 per share earnings reach $9, the rate the company has maintained for the past six months, Lorillard common might well sell in the 90s particularly if better earning rates are acompanied by a further liberalization of dividends. Since management has indicated it would not be adverse to a split once the stock approached the 100 level, the realization would serve as a kicker to carry the stock still higher. With this potential plus the fact that the stock offers an attractive 4.8% yield at its recent price of around 83, Lorillard would appear to be an interesting commitment. The company has just proposed a 2 for 1 split subject to stockholder approval.

Reynolds Tobacco's sales were 7.6% ahead for the first nine months of 1958, and with estimated annual sale of better than 1.1 billion for the year, Reynolds is the number one cigarette company of the nation. Furthermore Reynolds has the leading brand in each of the three main categories: Camels being the number one regular, Winston the number one filter tip and Salem the number one mentholated cigarette. Reynolds has not felt the necessity of entering the hi-fi market, its sales emphasis being on flavor rather than the absence of supposedly harmful ingredients. As the leading merchant in the field, there is no question of its launching a hi-filter if it thought its sale organization required this added item. Particularly remarkable is its 1958 record with Camels. While regular-size straights for the industry as a whole fell off 5.5% Camels sales were less than 1% below the year previous. Earnings for 1958 will be around

(Continued on page 558)

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$7.50 per share after last year's change in accounting procedure from Lifo to a lower of cost or market basis on inventory. Earnings without the adjustment might have been around $9 per share. Selling at 11 times a more realistic approximation of earnings, R. J. Reynolds seems to represent excellent value in view of its excellent record over the past ten years. Dividend was increased last year from a 75¢ to a $1.00 quarterly basis, and there is no reason in view of Reynolds excellent cash position, that the dividend will not be further liberalized some time in the course of the year, unless company wants to conserve cash for some acquisition. Directors recently approved a 2 for 1 split to be voted on by stockholders at the next meeting.

Cigars and Snuff

The cigar business also witnessed an excellent year despite the traditional theory that cigar sales slip in a recession economy. The cigar business, however, has a different character from what it had years ago in that it is now concentrated in the hands of a few strongly entrenched, well financed companies who are in a position to merchandise cigars according to modern promotional methods. Furthermore, the introduction of the homogenized leaf permits the mechanization of manufacture in addition to bolstering profit margins.

Even the snuff business seems to hold its own although the growth is less than the gain in population.

Bayuk is the third largest of the major publicly owned cigar companies, accounting for around 15% of total cigar volume. However, since its particular concentration is in low and medium priced cigars, the company's unit volume may be the largest in the industry. Greatly expanded advertising and promotional outlays should ultimately lead to Bayuk's capturing an increasingly larger proportion of the market.

At recent price of 29, stock sells at around 20-21 times estimated 1958 earnings of around $1.40 per share. Yield is 3.4% on the regular 25 cent quarterly dividend. The stock seems like an attractive holding based on a continuing uptrend in cigar sales with increasing profit margins in the future.

General Cigar, recent price 72, just received stockholders vote of approval on the proposed 3 for 1 split and raised the dividend to a regular 60 cent quarterly basis (20 cents quarterly on the new stock) from the previous 50 cent quarterly basis. General Cigar is a large domestic cigar manufacturer and company experienced an 8-10% sales rise in the year 1958 with some betterment expected in 1959. Profit picture was restricted last year by heavy advertising costs, but profit margins should improve with further mechanization of manufacture rendered feasible by the Homogenized leaf which was first developed by General Cigar with other companies using the process as General's licensee. With 1958 net earnings of around $6.00 per share, even the present payout of $2.40 is low, mainly because the company is closely held by management who is not concerned about augmenting its income. The stock is controlled through the 56% ownership by the Bush Terminal. The stock offers attractive possibilities with limited downside risk.

Consolidated Cigar is the nation's leading manufacturer of cigars. Sales have almost doubled in the last ten years rising from $41 million in 1948 to an estimated $80 million in 1958. Its area of concentration is in the ten cent to three for 50¢ price range. Dutch Masters, El Producto, Harvester, Muriel are some of its leading brands.

Estimated earnings for 1958 are around $4.60 per share with around $5.00 looked for in 1959. At its recent price of 48, selling around 10 to 11 times anticipated 1958 earnings stock appears reasonable, and the 4.6% yield offered by the indicated $2.20 dividend makes the stock attractive for income.

American Snuff — To those unacquainted with users of snuff, it might seem that snuff manufacturers are in the same boat as manufacturers of the old fashioned ice box, but actually there is a large demand for snuff particularly among workers in forestry, the petroleum industry and in some types of mining and manufacturing where smoking presents a fire hazard. Specifically, snuff sales increased around 2% over 1957 year. American Snuff is the second largest of the snuf producers. In an attempt to diver sify from its basic business whic lacks growth, American Snuf recently entered the insecticid business with three differen types of substances for elimina tion and control of insects. A recent price of 60, America Snuff is reasonably priced on th basis of $5.00 earnings with 5% yield. Further diversificatio lends growth possibilities for th future.

G. W. Helme is the nation's thir snuff manufacturer with antici pated sales for 1958 of aroun $16 million. G. W. Helme's divers ification efforts have taken it int the bakery business with the ac quisition of Bachman Bakerie and its affiliate the Berkshire Bis cuit Company, in January of 1957 Although somewhat higher tha American Snuff on a P/E basis Helme's affords a better yield o its regular 40¢ quarterly dividen plus 10¢ extra. G. W. Helme i considered good value for its a tractive income with appreciatio potential through diversificatio

U. S. Tobacco, the nation's num ber one producer of snuff, ac counts for almost half of th country's total output. Compan is also in the cigarette busines with Sanos as its leading brand and Sanos shared top billing wit Kent in the various Reader's Di gest studies of nicotine and ta content of cigarettes. For a time it appeared Sanos might snow ball U. S. Tobacco into anothe Lorillard, but it now appears a though 1958's sales of Sanos, bot filter Kings and regulars will onl exceed 1957's sales by aroun 22%. Overall 1958 sales ma slightly exceed the previou year's $28.2 million. U. S. Tobac co is also in a strong position fi nancially and possible diversifica tion into other products lend some future possibilities. Th company is presently making cur lers for Toni Home permanen kits. With some increased price for its various products, profi margins should be well maintain ed. 1958 earnings should bette 1957's $1.73 per share with im provement of around 10% fore cast for 1959. At its recent pric of around 25, Company is sellin at around 13 times anticipate 1959 earnings. The yield is aroun 4.7% on the $1.20 payout. Stoc is considered fairly priced, bu not undervalued. EN

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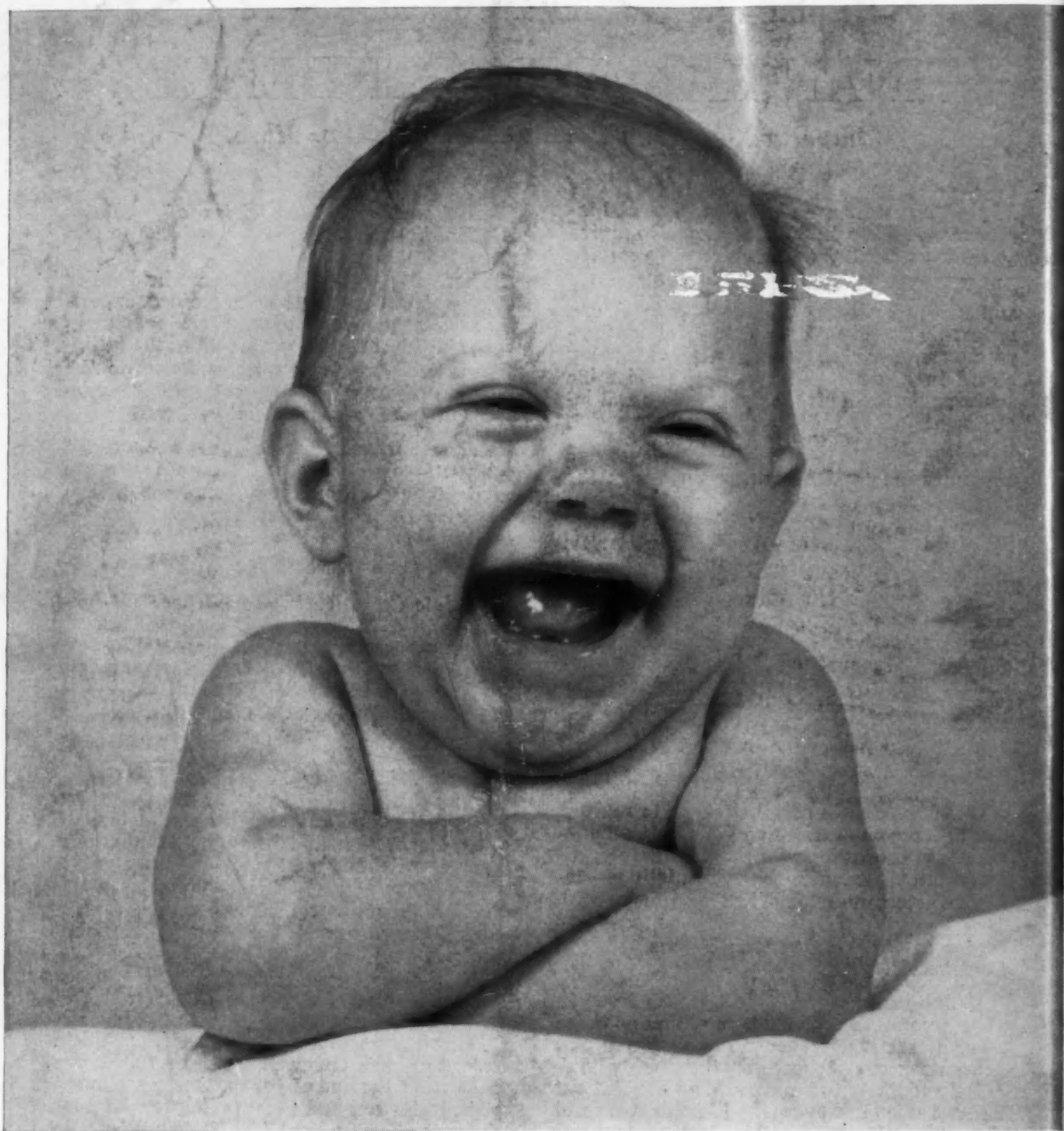

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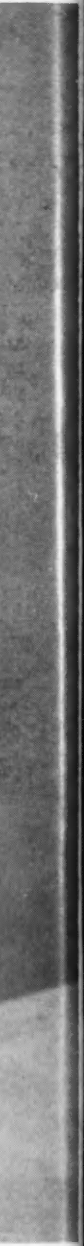

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